“UPL Limited
Q3 FY2021 Earnings Conference Call”

January 29, 2021

CHORUS CALL®

MANAGEMENT:

MS. RADHIKA ARORA – HEAD – INVESTOR RELATIONS – UPL LIMITED
MR. JAI SHROFF – GLOBAL CHIEF EXECUTIVE OFFICER – UPL LIMITED
MR. RAJENDRA DARAK – GROUP CHIEF FINANCIAL OFFICER – UPL LIMITED
MR. DIEGO CASANELLO – CHIEF OPERATING OFFICER – UPL LIMITED
MR. ANAND VORA – GLOBAL CHIEF FINANCIAL OFFICER – UPL LIMITED

Moderator: Ladies and gentlemen good day and welcome to the UPL Limited Q3 FY2021 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Ms. Radhika Arora, Head of Investor Relations for UPL Limited. Thank you and over to you Madam!

Radhika Arora: Thank you Vikram. Good morning and good evening ladies and gentlemen. Thanks for joining us today for the results for the quarter and nine months ended December 31, 2020. On this call we will be referring to a presentation that has been shared with you and is also available on our website and we take as having read the safe harbor statement. From the management, we have with us Global CEO, Mr. Jai Shroff; Group CFO, Rajendra Darak; COO, Mr. Diego Casanello; Global CFO, Mr. Anand Vora, and other members of the global leadership team. We will start the presentation with an overview from Jai followed by a business update from Diego and thereafter a financial update from Anand. With that let me now hand over to Jai.

Jai Shroff: Thank you Radhika. Hello everyone this is Jai Shroff and I thank you for joining us today for the Q3 earnings conference. I hope all of you are doing well and among this unprecedented time the world is facing. It has truly been testing and challenging year for all of us when the disruption caused by what you can only truly term as once in a lifetime black swan event – the global pandemic. But despite many of these headwinds I am glad and pleased to inform you that the entire UPL family has been resilient during these times and that the learnings from this pandemic have made us stronger and more focused. As a company we are proud to be part of the food value chain when the world needed it the most during these unprecedented lockdowns. As we accelerate the transformation from an agchem centric company to one that is pioneering and developing sustainable food systems. We have a unique approach to the food value chain that puts sustainability front and center to doing everything. Our model of creating sustainable growth is unique and we are pleased that some of the leading ESG rating agencies like Sustainalytics, DJSI, FTSE Russell and others have acknowledged the same. Sustainability and CSR have always been the way we work and that is our DNA. Much before the ESG word became a central theme for global corporations and many large enterprises. Lastly, the UPL family including myself are humbled that my father, the founder of this company who has been conferred India's highest civilian award, the Padma Bhushan for his contribution in the field of trade and industry. This is a distinction brings us immense pride and joy to all of us. Our founder my father has always believed in purpose of science and technology is only achieved if the products are affordable and made available to the smallest farmer. We remain committed to his philosophy and we will chart a similar course developing solutions that will benefit millions of farmers in India and across the world. Thank you very much and I invite Diego to give a business update.

Diego Casanello: Thanks Jai. Good afternoon everyone. I am pleased to join you today and present our financial results for Q3. Let us move to the first slide. I am glad to report that we are on track to deliver our guidance for the year, revenue for the quarter improved by 3% and EBITDA improved by 6%. The increase was supported by strong volume growth, favorable mix and price increases, which also led to an improvement in gross profit by 230 basis points. We achieved this despite currency headwinds and a significant delay of the season in Brazil. In addition we continue to improve net working capital by 19 days primarily driven by accounts payables and earnings per share in the Q3 was 12% higher versus the prior year and amounts to Rs.10.38 per share. We also reduced our debt by Rs.3,980 Crores.

Now let us look at our overall performance highlights for the quarter. We are happy to report that four out of five regions delivered growth in the quarter. LATAM was the exception, which was impacted by both the delayed season due to dry weather in October and November and strong currency headwinds. A part of this impact was offset by price change in local currencies and overall we achieved 7% volume gain and 1% price gain, which were partially offset by 5% currency headwinds mainly of Brazilian Real. Increased sales of differentiated products and sustainable solutions supported higher margins, which also benefited from COGS savings and synergies. Fixed overhead was 11% higher than prior year impacted by intra quarter movement of costs and other provisions as would be detailed in the financial summary by Anand. All these factors have led to 6% EBITDA growth verus prior year.

Now let us look at the performance of the regions. In LATAM we saw volume growth in Argentina, South Cone and Andean regions. Despite a season delay due to drought in Brazil and Argentina, the increase in grain commodity prices and recent rains are supporting positive trends for Q4. In North America, combined favorable weather conditions and strong growth in differentiated and sustainable solutions have contributed to higher revenues and improved margins. In addition, we are also seeing increased demand for Glufosinate due to the robust ramp up of resistant trait acres. In Europe this area has been bringing alternative solutions to gaps created by banned products including the recent launch of ARGOS a biological sprout inhibitor for potatoes. Increased sales of differentiated and sustainable solutions in Europe have led to an improved mix and we have also seen strong growth in Poland, Benelux, Ukraine, Italy and Spain. The rest of the world saw double digit growth in Africa, Middle East, Australia and New Zealand benefitting from a normalized season compared to last year. A strong growth was also achieved in South East Asia due to the expansion of our Glufosinate business. Accelerated growth in China was driven by UPL's investments in people on the ground and a growing portfolio of branded products and thanks also to a recent acquisition of Yoloo Laoting Limited. In Q3, the market in India has slowed down due to the excess rains in the South after a very strong six months of the year. The region experienced herbicide sales growth to address resistant phalaris infested wheat acres as well as other uses.

Before I hand over to Anand, I would like to recognize our team for their resilience and dedication to the company and our customers. The great example is our recently announced state-of-the-art Clethodim manufacturing facility in Jhagadia, India. Clethodim is one of the largest selective post-emergence herbicides in the world was brought into the UPL portfolio through Arsyta Lifescience.

After only 20 months post integration this investment allows us to meet increased demand requirements from growers and significantly improves our competitive position and strengthening our margin leadership. So thanks again to everyone involved in this key project, to all employees and everyone fantastic job. We will now move forward into Q4 with a sharp focus over delivering a strong finish, agronomic conditions in key markets remain positive and prices for grain commodities continue to increase. The strength indicate that we can expect healthy farmer margins and at the same time UPL has demonstrated a strong track record of increasing market share, introducing new and more differentiated products and increasing margins. Because of all this we are confident to be well positioned to deliver on our guidance for the full year 2021. I would now turn the call over to our CFO, Anand Vora to provide more details about our Q3 financial results.

Anand Vora: Thanks Diego. Good afternoon, good morning, and good evening wherever the people who have joined us on this call and thanks once again for joining us on this call I hope all of you are safe. I will deep dive into the financial highlights for Q3 and nine months ended December 2020. We saw a robust volume growth during Q3. Volume growth of 7% and this is the first quarter in this financial year where we saw a positive price variance**,** so the team has been working hard to increase the prices and we did see that Q3 started bearing some results on that and we do expect that Q4 also we should be expecting some positive price for us. So 7% volume and 1% price; however, we had some very strong FX headwinds particularly in Latin America and that impacted our overall revenue growth by 5% and therefore the net revenue growth for the quarter was 3% over that of the same quarter in the previous year.

If you look at the nine-month results, overall growth is about 5%, but again if you look at the volume growth we saw a volume growth for nine months period of 9%. As I mentioned the first two quarters we had a negative price impact and therefore for the nine months we still have the price impact of negative 1%. We hope to correct this as I said in Q4 and FX impact for nine months was -3% and therefore the overall growth in revenue for nine months has been 5% in revenues. For Q3 the EBITDA rose by 6% and overall for the nine months period we had an EBITDA growth of 8% and therefore we are pretty much on track to deliver both the revenue guidance of 6% to 8% growth for the full financial year and the EBITDA guidance of 8% to 10% for the full financial year. Based on what we are seeing in the forecast and pricing improvements for Q4 we hope to be on the high end of both the revenue guidance and the EBITDA guidance.

Talking about the key financial year metrics, revenues for the quarter were Rs.9125 Crores an increase of 3% and for the nine months were Rs.25898 Crores an increase of 5%. EBITDA was at Rs.2209 Crores for the quarter an increase of 6% and Rs.5720 Crores for nine months an increase of 8%. The net profit for the quarter was Rs.793 Crores, a growth of 12% and for the nine months period the net profit stood at Rs.1807 Crores a growth of 56% over that of the nine months of the previous year. Gross margins were up by 230 basis points and stood at 44% to sales against 42% in Q3 of the previous year. The margins expanded due to price increases in local currency, COGS savings, savings in the cost of goods and synergies. This was also driven by a favorable product mix. Gross margins stayed strong for the nine months period at 42%. For the quarter the fixed cost was higher by 11% as compared to the corresponding previous period that is the corresponding quarter. The increase was largely on account of some intra-quarter movement of costs and also includes Rs.39.5 Crores on account of unfavorable court order for the entire industry pertaining to excise duty for a period of April 2008 to December 2013 in the State of Jammu. As you are aware we have our manufacturing plant in Jammu and the industry there were certain benefits given; however, there was some misinterpretation and the matter was with the High Court. We got a favorable response in the High Court the industry, but in the Supreme Court this was turned down and therefore we had to make this provision of Rs.39.5 Crores. As I mentioned earlier this pertains to period from April 2008 to December 2013. Without considering this liability for fixed costs actual increase is only 9%, overall for the nine months period fixed costs were higher by 3% as compared to the nine months period of the last year.

Finance cost, I think I would spend some time on the finance cost as the way we publish it the finance cost not only includes the interest costs but also includes the mark to market on hedges that we take and as you know with our global business we do take to protect any adverse impact arising out of currency fluctuations we do take forward contracts and hedges. So deep diving into the interest cost, the interest for the quarter was Rs.745 Crores and this as compared to the same quarter in the previous year was Rs.515 Crores thereby showing an increase of Rs.230 Crores. Of the Rs.745 Crores finance cost, interest and financial charges were Rs.460 Crores compared to Rs.388 Crores of the previous year an increase of Rs.72 Crores; however, the increase is on account of a one time interest cost of Rs.75 Crores pertaining to prepayment of October 2021 maturity bonds of $410 million. As you are aware we did what is called as the make hole where we bought back these bonds of Rs.410 million and as per the offer document we have to pay interest until maturity and the Rs.75 Crores one time cost, which I am referring to is nothing, but the interest that we paid from December 20, 2020 to the maturity date, which is October 2021. What is important here to note is that on this prepayment and the interest of additional outflow of Rs.75 Crores, which we charged P&L actually the company has gained an overall Rs.32 Crores reduction in the finance cost on account of prepaying this bonds. So net-net if one has to look at the finance charges for the quarter against Rs.388 Crores on the previous year they were actually around Rs.382 Crores for this quarter. The balance Rs.285 Crores, which I mentioned pertains to net exchange difference on account of profit and loss arising on foreign currency loans, mark to market losses on forex contracts related to advance orders, borrowings, loans and advances. This as compared to previous year number was Rs.127 Crores and again needless to mention due to the pandemic we saw wide fluctuations in currency and we therefore had taken significant hedges to ensure that our profitability at the business level is well protected.

Moving on to exceptional items, exceptional items for the quarter was an income of Rs.78 Crores versus an expense of Rs.75 Crores in the previous year for the same quarter. This was on account of the favorable verdict on AgroFresh case, which resulted in reversal of Rs.115 Crores. For those of you who have been following the company you are aware that based on the court verdict earlier we had made a provision of $31 million and we represented or we contested this court verdict and the verdict was in our favor and penalties and other things were reduced and the overall hit was only $13 million, we had $18 million of reversal, we had to pay some interest on the $13 million, so the overall reversal was Rs.115 Crores in the exceptional cost for this quarter.

Net profit for the quarter stood at Rs.793 Crores versus Rs.707 Crores showing a growth of 12% over that of the previous year and for the nine months we saw net profits were at Rs.1807 Crores versus Rs.1158 Crores an increase of 56%. As a result we saw the EPS for nine months come to Rs.23.65 per share versus Rs.15.16 per share for the nine months period in the previous year.

Moving on to cost and revenue synergies, in terms of synergies, we had targeted cost synergies of $200 million for FY2021 and we are well in course to achieve that. We achieved cost synergies of $35 million in Q3. We have already reached cumulative cost synergies of $188 million. On the revenue synergy front, revenue synergies in Q3 stood at $55 million while cumulative revenue synergies were $354 million as of December 2020 against the target of $350 plus million of synergies by FY2022.

Working capital, in line with the seasonality of business when the working capital peaks in Q3, net working capital base stood at 117 days they were lower by 19 days as compared to last year. Payables for the quarter increased by 20 days while inventory increased by eight days and receivables were reduced by six days. This is in line with guidance that we had given at the beginning of the year that we will work towards reduction of working capital of 3-5 days largely through increase in payables by end of the financial year that is by March 2021. So in line with that guidance I think we are moving in the right direction. We have increased the payables as of December by 20 days and we are confident of delivering a three to five days reduction working capital by March 2021.

Debt position, as informed earlier our debt obligation is being serviced efficiently demonstrating our commitment towards our bankers and stakeholders at large. We have brought down the gross debt; it is Rs.27837 Crores as of December 31, 2020 a reduction of Rs.4000 Crores from the previous year. Net debt stood at Rs.24244 Crores and we maintain our commitment to maintain the investment grade rating, which means that we will be delivering a net debt to EBITDA of 2x by March 2021.

Finally summarizing, we do believe that the strong demand growth following favorable economics in core markets, cost and revenue synergies and favorable product mix with higher proportion of differentiated and sustainable products and optimization of fixed cost, we will be able to deliver our guidance of 6% to 8% revenue growth and 10% to 12% EBITDA growth for the year. With this allow me to end the presentation from my side and hand over the Diego for a quick update on the sustainability highlights. Diego over to you!

Diego Casanello: Thanks Anand. In our last call, we shared with you the progress that we have done to achieve top position in key sustainability rankings. We talked specifically about sustainability and the number one position among our peer groups. Today we would like to provide an update against our established targets in alignment with our environmental objectives we have achieved year-to-date a reduction of 12% in CO2 emissions, 30% in water consumption, 34% in waste water discharge and 1% in waste disposal over our full year 2020 numbers. Water consumption and waste water discharge has benefited from the closure of our Rotterdam plant. From a health and safety standpoint, we had a total recordable incident rate year-to-date of 1.22, an increase from 1.18 in the first half mainly on account of some first aid incident and a total recordable frequency rate of 0.31. Very importantly we are in line to reach our goals of positively impact in 500000 lives to initiate this at least in more than 10 countries in more than 70 communities.

Now let me take an opportunity to talk to you about some good news in Q3. I couldn't be more proud to announce that UPL received the Agrow awards in the category of best company from an American region. For those who are not familiar with this award the Agrow awards it is a near global competition that honors top advancements in agriculture. This prestigious award recognized UPL as the company that has made the greatest contribution to the crop protection industry with headquarters in an emerging country. UPL was also recognized as a finalist during the 2020 awards in five additional categories for its stewardship programmes, industry collaborations, marketing programmes and programme development. Another great achievement for the quarter relates to our intellectual property. UPL won the Confederation of Indian Industry Intellectual Property Awards for Best Patent Portfolio in Lifescience and Pharma. The award aims at recognizing and celebrating companies, which are in great IP generation, IP protection to fuel the business growth. In this case, winners were evaluated by a jury of academic consultants and experts with established credentials in their fields. Our commitment to innovation enables the launch of more than 100 products in the last few years that targets farmer pain points around the world and I'm very excited for our team and know a lot of effort went into achieving this important recognition. This brings us to the end of the presentation today. I like now to open the call for Q&A. Thank you very much.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have our first question from the line of Tarang from Old Bridge Capital. Please go ahead.

Tarang: Good evening and good afternoon to everyone on the call. I have three questions from my side. The first one to Diego, Diego can you give us a deeper insight on what happened in LATAM in Q3 and do you think you know you lost market share or was it industry pervasive situation and what gives you the confidence that the sales were more of a deferral than a permanent loss or may be a later deferral to next year?

Diego Casanello: There are some situations as we mentioned there was a drought period in Brazil. I was talking about Brazil in particular between October and November and that has delayed the planting of soya beans in Brazil, so this has affected the entire industry. I think you will hear very consistent messages from other peers, so we are not, actually in fact we are gaining market share in Brazil and we are very confident that in Q4 we will have a great performance in Brazil overall and we have already a significant amount of orders in hand, if you think about it with the current commodity prices in Brazil soya bean prices being at a four years high farmer margins are expected to be very, very solid, so this delay it is just that it is a delay. I think that answers your question.

Tarang: Thank you. Mr. Vora Just your sense on what your working capital days could be by the end of the year because last year you were at about 98 days so would we see that coming down to about 93 to 94 days or would be in the same range?

Anand Vora: That is what we are working towards three to five days reduction.

Tarang: The factoring that you do wherein you sell your receivables could you give us a sense on what your cost of selling those receivables would be?

Anand Vora: Around Libor plus 200 we have very competitive pricing.

Tarang: Thank you. All the best guys.

Moderator: Thank you. We have the next question from the line of Matias Vammalle from BlueBay Asset Management. Please go ahead.

Matias Vammalle: Good morning and good afternoon. Two questions from my side. The first one if you can comment what was the amount of receivables that you sold, the amount outstanding by the end of the quarter and as you know as we discussed the agencies looks at this you can give us a sense of what is the amount of standing of receivables and then looking into the end of Q4 of FY2021 if you can walk us through a little bit and how you think you are going to get to deleveraging? The growth in EBITDA has been quite remarkable as you said at 9% for the nine months, but in dollar terms it has been rising a bit at two and a half times of course because of Fx as we knew, but net debt is also unchanged in Q3 versus the second quarter so if you can give us a little more sense and comfort us to what the levers are going to be in Q4 and whether that is going to come from the working capital inflows that we are normally used to seeing, but also do you think that there could be a spurt in EBITDA through which they get you to a comfort place on the level front?

Anand Vora: Matias our methods are factoring as of December 2020 is Rs.4570 Crores roughly about $600 odd million and we expect this to go up as the Q4 as has been the case in the previous years also in the same for the full financial year. As you know Q3 is typically the peak working capital and there is a significant amount of working capital increase you see happening in Q3 and then the Q4 is when most of that gets converted into cash and it is the same trend that is being followed, so we do believe that the reduction in working capital from almost 122 days to around the 90 days is what is going to bring in the cash inflows. Besides that Q4 is always one of the profitable, H2 is typically more profitable, more sales and more profitable as compared to H1 and we are on track to deliver those numbers, so these are the two factors, which will help us to bring down the debt to the levels, which we had guided for, which is net debt to EBITDA of 2x.

Matias Vammalle: Thank you very much.

Moderator: Thank you. We have the next question from the line of Aditya Jhawar from Investec Capital. Please go ahead.

Aditya Jhawar: Thanks for the opportunity. A couple of questions from me. Totally I wanted to understand actually what happened in Europe in terms of driving such a strong growth especially in the December quarter and how sustainable is it because the first six months of the calendar year are typically more stronger for Europe so do you expect at the strong momentum that you have created in Europe should continue or is there a specific product related genes that you experience in this quarter?

Diego Caasanello: May be I would ask you if you can repeat a little bit. I could not understand acoustically here.

Aditya Jhawar: Let me repeat the question. So Europe has reported pretty strong number in terms of overall growth and absolute dollar number especially in December quarter it is pretty encouraging, now since first half of the calendar year is relatively bigger in Europe should we expect that a strong momentum generated in Europe should continue in first half of the next calendar year as well?

Diego Casanello: Now I understood. Yes we had a strong performance in Europe. I would say primarily driven by the launch of new products in particular we had a great success with the product called ARGOS, which is a biological product that allows us to replace a product that was banned in Europe that was actually sprout inhibitor for potatoes and this product has a very good margin profile, so we are very happy with the success. We also were benefitted by exchange rate because obviously the Euro has appreciated so that has helped a part of the revenue growth, but we expect let us say the momentum to continue also in the first half of next year, so we are very confident that with respect to the market share gains and the investments that we are also doing in Europe and we are investing on people on the ground in several Western European countries including Germany where we were under-represented compared to the potential that our portfolio has, so you can expect more growth coming from that region.

Aditya Jhawar: You commented that UPL is gaining market share in Brazil so if we want to describe a little bit in detail like in the sense what is driving this market share gain, is it product specific gain because what we understand is that one of your large competitors is having some supply side issues and hence we are following a little bit from the Brazilian market, so the market share gain asset is not sustainable or what is driving the market share gain in Brazil?

Diego Casanello: It is sustainable. We have been observing this already for several quarters. What is driving the gains is that the combined portfolio now of Legacy UPL and Legacy Arysta where we have complete portfolios in soya beans, corn, sugarcane, cotton, so key crops in Brazil that allows us now to offer total solutions to have significantly more presence in our distributors. That together with a launch of new products over the last three years is actually helping us gain traction in Brazil. Also the fact that there were significant synergies from our market footprint in Brazil, UPL Legacy was very strong on we call it the Mato Grosso and Cerrado region and Arysta in oher areas so with both businesses together now have the possibility to expand the presence with cross selling activity. So these things are helping us in market share and this is a sustainable trend you will see also in the future.

Aditya Jhawar: That is very encouraging to hear. My final question to Anand, Anand if you look at nine months number of working capital there the receivable numbers seems to have increased by 5%, but if you see in LATAM contribution come down so is it a change in our target crop, is it that we are more in getting inclined towards higher working capital and higher receivable crop like sugar cane does it look like that?

Anand Vora: I think it is line with the growth because if you see the number of days receivables have come down from 126 to 120 days. Yes this year sugar cane we have seen good increase in sales towards sugar cane, there has been some extended receivables there because sugar cane as we give on crop terms there are larger than that on soya bean and corn, but nothing significant to impact the overall working. The number of days in fact it has reduced from 126 to 120 days.

Aditya Jhawar: Okay that is it from my side. All the best.

Moderator: Thank you. We have the next question from the line of Vishnu from Spark Capital. Please go ahead.

Vishnu: Good evening gentleman. My first question is on the cost and revenue synergy targets, you seem to have read the revenue number already so is it the number that you kind of already achieved, and will there be an uptake in guidance for this both revenue and cost?

Anand Vora: While we had given this and these are targets, which we set at the time of announcing the acquisition and the integration today we work as one company, in fact it is becoming more and more difficult for us to keep tracking the synergies because both the companies have integrated and they have almost we do not even look at it, it is just one UPL, so we have no intentions of changing or coming up with a revised guideline. We are committed to track it for two years in terms of cost synergies and in terms of revenue synergies, so we will track them and we will share this details on a quarterly basis, but there is no intentions of giving guidance or anything because as integrated company now we have already started our growth trajectory introducing lot more sustainable and differentiated products and the focus is in that direction.

Vishnu: Got it Sir. A connected question to this, in the EBITDA margin from a nine-month standpoint we are actually more or less flat excluding synergy obviously the number is down so from a two-year perspective how should we see our EBITDA margin trajectory if you could broadly could say?

Anand Vora: I think our business the way it is and the business model that we operate we do believe that we can deliver on this business model EBITDA margins in the range of 24% to 25% over the next two to three years and then this focus on differentiated and sustainable products will help us to move in that direction. We always work towards cost reduction, in fact our supply chain always takes up this challenge of bringing down the cost of manufacturing by 2% year-on-year, so that is something we take pride in and we focus on, so these would help us, both these factors should help us to deliver these sorts of margins over the next two to three years.

Vishnu: Got it and the final one to Mr. Diego. This Europe growth is it more like a one time or should we see the growth continuing into next year or next year also the growth should continue and some guidance on the Q4 how is the current Rabbi season going?

Diego Casanello: So in Europe we are confident on our ability to continue to grow in Europe and in fact we have one of the best pipelines there comparing region to region to focus on growth in Europe. It is a great region to grow because it is a high margin region so we like doing business in Europe, it is a stable business. Provided the weather conditions help we are confident to continue the growth momentum that we are seeing and with respect to the Q4 one very encouraging trend that we announced in Q1 if you remember that we had some challenges on margins in Q1 and we said at that time that we have increased the prices and we are moving towards pushing the right products and that we were expecting margins in US dollar terms to increase and this is what we are seeing quarter-to-quarter, in fact in Q3 you can see that we have delivered very healthy margin, in that we are expecting to continue in Q4 and so that combined with a very healthy demand market share gains over the book that is filling up as we speak that gives us the confidence that we can deliver a strong Q4 and that is why we are confirming the guidance and we are hoping rather to end that in the upper end of the guidance. Bringing the full year to a success and if you think about it like two years in the row growing double digit that would be a fantastic milestone for UPL.

Vishnu: Will we do double digit growth next year also that was the question I was asking?

Diego Casanello: I do not want to give a specific guidance on a region, but what I can tell you that we are happy with the progress and we are pretty confident on our growth momentum in Europe.

Vishnu: Got it Sir. Thank you. Thanks and all the best.

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

Ritesh Gupta: Thanks for taking my question. Just two from the P&L side, when I see the P&L given on the slide number eight interest cost goes up from Rs.515 Crores last year to Rs.745 Crores this year, now there will be some mixes here and there, but overall basis given that the debt has overall reduced or probably has remained the same in terms of gross debt side it looks much higher on a Y-O-Y basis so if you can just explain that part and even on the overhead side despite the synergies, etc., I see a decent growth or double digit growth in the fixed overhead side as well so if you can just give me some sense there?

Anand Vora: Sure Ritesh. Thanks for joining us. So Ritesh you know the Rs.745 Crores of interest cost for the Q3 versus Rs.515 Crores after Rs.745 Crores Rs.460 Crores is towards the interest cost and in this Rs.460 Crores there is Rs.75 Crores, which is the interest, which we have paid for, we did the early payment of the bonds maturing October, but as per the terms of the bond we have to pay interest up to the maturity date discounted for the Libor plus whatever about 50 bps discount rate so effectively that Rs.75 Crores interest, which we would have paid every quarter until for the next two to three quarters until October 2021 we paid it in this quarter. Now if we were to back that off then our interest is about Rs.385 Crores versus Rs.388 Crores in the previous year, so actually there is a small reduction despite the increase in working capital, which as you know we generally borrow in local currency just to avoid any FX impact and which is slightly at a higher rate than the terms loans or the acquisition loan and the bonds, which we borrow at, so that is on the interest. The balance portion out of the Rs.765 Crores minus Rs.460 Crores the Rs.285 Crores is all pertaining to mark to market on various hedges and forward contracts, which are outstanding on our foreign currency loans or on our contracts, which are against the advance orders or other loans and advance, so these mark to market obviously as you know would get reversed and the benefit of this is sitting on some of the asset side would be in the receivables or in other things, but which will get knocked off as we move forward.

Ritesh Gupta: Understood and on the fixed overhead side?

Anand Vora: Fixed overhead I think as I have shared you it is a quarter-to-quarter intra-quarter issue, they have got some bonus provisions, etc., which were reversed last quarter and it was in the previous years as well this year we have been doing properly on a quarter-to-quarter basis so if you look at for the full year we are only about 3% higher and that too if you see that Rs.40 Crores, which I said is a one time it will not move the needle much, but nonetheless Rs.40 Crores is Rs.40 Crores, which has hit us that pertains to excise duty, which was pertaining from April 2008 to December 2013, so those are again one time hits, which have come, otherwise we are on track and we do believe that we will end well within what we have budgeted, which is less than 3% increase in our fixed overhead cost by the end of the year.

Ritesh Gupta: Understood and the second one from a broader picture point of view historically UPL has grown in the double digit growth rate and with the Arysta's acquisition you double your size and in a way for the first one or two years you still grew well because there were a lot of revenue synergies with self driving, now as system comes to stability and some of the early parts of the low hanging fruits on the synergy side are well consumed and then when I compare you to let us say peers, which are growing with low single digit should we not assume that UPL also with about 10% market share globally now and one of the top five companies will start growing in mid single digits to high single digits probably mid single digits going forward?

Anand Vora: I have Mr. Shroff on the line let him answer this.

Jai Shroff: I do not believe that. I think we are still forecasting market share growth. Our India business is doing well, we are increasing our presence in China and South East Asia, those businesses are growing well, I believe our Brazil business though this quarter was pushed over because of the delayed season is growing very well, we have become the number one company in Mexico, Columbia, Chile, and we are just beginning. I think the first two years of synergy is by no means it is just initial period. I believe that we are seeing a good amount of traction and I will be surprised if we do not continue to grow at double digits at least for the next three to four years.

Ritesh Gupta: Yes it is very helpful. Thank you so much.

Moderator: Thank you Sir. We have the next question from the line of Madhav Marda from Fidelity Investments. Please go ahead.

Madhav Marda: Good evening. Thank you so much for the time. I have got a quick question. I just wanted to get your outlook for the agri market for 2021, I think you partly already highlighted it, but given the surprises for some of them are like three to four years high and probably in some markets we also have a bigger base from last year I think like in North America, so would it be fair to say that FY2022 could be a much stronger year for the company just like an initial outlook would be great?

Diego Casanello: I think obviously difficult to get a forecast but we are positive about next year’s outlook in terms of the agronomic conditions and the market overall, just looking at commodity price that is right and this is a new industry that is very crisis robust so it does not get affected as much from financial and/or crisis like the ones we saw with COVID. In fact actually we saw after the 2008-2009 financial crisis that commodity prices went up and it was a start of a super cycle right for commodity prices and that ended only in 2014-2015, so I do not want to say with that this is going to happen next, but we are confident that certainly next year the prices that we are seeing right now are going to drive demand for technology in crop protection that combined with hopefully normal weather conditions should be a very good starting point and never forget the fact that world food consumption continues to increase and agriculture needs to increase productivity every year, every single year, so there is a need for technology, there is a need for continue to invest because crop area, the area planted is limited and is in fact actually even declining overall globally, so there is a need for more technology and in that drive call it the market growth overall. I think we can be positive about the outlook.

Madhav Marda: Just one other question from my side on the raw material prices is it broadly stable or are we seeing any inflation and deflation given that lot of the commodity costs in general have also went up?

Anand Vora: So we have our head of supply chain Raj here with us. Raj go ahead on the commodity and raw material prices.

Raj Tiwari: What we are seeing currently is that commodity prices the basic building blocks of chemical industry like methanol, acidic acid, ethanol, and sulphur off late has seen quite sharp increase. This is going to sustain for at least Q4 unless that we see refineries across the world going to capacities and therefore some of the commodities the availability becoming more. So at least going forward for Q4, which is January to March now and a part of Q1 we can see that this will remain stronger and then we expect things to get slightly softer from Q2 of next year onwards.

Diego Casanello: Sorry just to add to what Raj said I think obviously we are increasing prices and the scale that we have for UPL globally is a great position to be able to maintain or even increase the margins in an environment like that.

Madhav Marda: Understood. That answered my questions. Thank you so much.

Moderator: Thank you. We have the next question from the line of Prashant Biyani from Prabhudas Lilladher. Please go ahead.

Prashant Biyani: Sir we had 5% drag on revenue growth due to currency, but broadly between Q2 and Q3 we have seen more or less stable currency rates across the world at least in Eastern Europe or even Brazil and was it because of the hedges that we took were a bit on the outlier side or what was the reason for the wide currency loss?

Anand Vora: I think you have to look at it with regard to the INR and there were currency movements there is nothing to do with the hedges, the hedges just protects us in the local currency against any depreciation and appreciation and helps us to ensure that we deliver products at the price, which we are committed to the farmers.

Prashant Biyani: Even in INR also we are seeing in Q2 in Brazil we were 13.8% Q3 13.7% so that is why?

Anand Vora: We can get into the details I can take you country wise we can have a separate call and I can show you the 5% depreciation impact.

Prashant Biyani: That is it from my side.

Anand Vora: Reach out to us Prashant we will have a chat after this maybe either today or maybe on Monday okay.

Moderator: Thank you Sir. We have the next question from the line of Varshit Shah from Emkay Global. Please go ahead.

Varshit Shah: Thanks for the opportunity. My question is on LATAM so if I strip off largely the currency I think LATAM is largely flat so is my assessment correct in terms of dollar revenue that is my question one and if that is true then that means you have gained market share, which you were mentioning earlier can you confirm that?

Diego Casanello: I think you can assume that with the drought that happened in September, October, and November the market overall in Brazil is down and we have outperformed the market. Now the demand is coming into force and so we will see growth in Brazil for UPL so overall that implies to the significant market share gain.

Varshit Shah: Sure and one last question on the cash inflow for Q4 since the season in LATAM is delayed some of your receivables which otherwise you would have received in Q4 on the back of Q3 sales will get pushed to let us say Q1 of next year, so will the cash inflow from operations is likely lower on a Q4-to-Q4 basis or that will not be the case?

Anand Vora: We are not expecting any such significant thing, LATAM as it is season gets delayed most of the sales as you know is at a higher crop terms, but we also do a fair amount of non-recourse discounting it is for Latin America and in fact we have got additional limits this year so we feel fairly comfortable that the cash flows will come by in Latin America.

Varshit Shah: Thanks and all the best.

Moderator: Thank you Sir. We have the next question from the line of Sonali Salgaonkar from Jefferies. Please go ahead.

Sonali Salgaonkar: Sir thank you for the opportunity. Sir I have only one question regarding the capex, what is our capex outlay in nine months and what is our guidance?

Anand Vora: So capex outlay in nine months is Rs.1360 Crores of which Rs.1015 Crores is towards our tangible assets and the rest are towards intangible assets. We do expect by year end to probably go around Rs.1750 Crores.

Sonali Salgaonkar: Sure thank you Sir and all the best.

Moderator: Thank you. We have the next question from the line of Jayaprakash from HSBC. Please go ahead.

Jayaprakash: Just to followup on the capex and the debt level I see that the current year debt figure is given as Rs.27800 Crores and this particular reduction does that refer to Q3 Rs.3980 Crores?

Anand Vora: Yes that was what we had repaid. You are talking about gross debt is Rs.27800 Crores, we have cash on bank balance is Rs.3593 Crores so the net debt is ~Rs.24,000 Crores, so this is as of December 31, 2020.

Jayaprakash: Okay and incremental capex from the last time I understand that it would be around Rs.400 Crores for the last quarter?

Anand Vora: It is estimated value it could be plus or minus it is way below our budget; we had budgeted for Rs.2000 Crores, so we are Rs.250 Crores short, and we are going to spend less in this year.

Jayaprakash: For the year end debt level is there any guidance like since lot of cash get freed up in the last quarter how much can we expect in Q4?

Anand Vora: So we had committed to 2x net debt to EBITDA, which would take us our net debt to roughly about Rs.2.4 billion to Rs.2.5 billion in that range.

Jayaprakash: Okay thank you Sir.

Moderator: Thank you. We have the next question from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: My question is as we have seen overall working capital days have reduced, but overall working capital has increased as per the PPT so where is the disconnect?

Anand Vora: You will always have the other working capital the advances and other things, which eventually the mark to market and all those things also come up there those get reversed so you will see reduction and what we focus is on what we can control, which are these things that is your inventory receivables and payables, which are the large components.

Sumant Kumar: The Q2 net debt was under similar level of the Q3 net debt right?

Anand Vora: Yes, but then typically the working capital is much higher in Q3 as compared to Q2 so we have been able to maintain the net debt levels at the same level.

Sumant Kumar: Thank you Sir.

Moderator: Thank you. We have the next question from the line of S Ramesh from Nirmal Bang. Please go ahead.

S Ramesh: Good evening gentlemen. Thank you very much. My first question is in your notes you have mentioned FX related loss at Rs.199 Crores whereas in the discussion we had on the interest cost of 745 MTM is given at Rs.285 Crores so can you explain this difference?

Anand Vora: There are other components also. There is mark to market, which is there and there is also what we call the NPV on receivables, which comes in there, so all these put together is Rs.285 Crores.

S Ramesh: Whatever mentioned in the notes is only the foreign currency on the mark to market?

Anand Vora: Yes that is right.

S Ramesh: The second thought is now given the strong farm income and the commodity prices and sowing in the US market and except in Europe do you see any prebuying in Q4 similar to last year what is the sense you have?

Diego Casanello: We see a stronger finance in Q4 compared to last year. We do not see an advancement of the Q1 to the Q4, but certainly you can expect a stronger demand compared to last year.

S Ramesh: Just one last thought in terms of new products and innovation rate can you share with us some insight in terms of the innovation rate as on date and what do you expect by the end of the year?

Diego Casanello: Yes so we are tracking our innovation rate every year and we are on a good path to increasing innovation rate to 21.7% if our forecast comes as we are planning, which would be an increase from a little bit more than 20% last year so that is a very good indication. If you look at our pipeline we have made announcements even on the last investor day we were expecting that innovation rate to continue to increase and with that we are driving our business to be more and more differentiated with better margin profile.

S Ramesh: Thank you. That was helpful. Wish you all the best. Have a nice day.

Moderator: Thank you. We have the next question from the line of Deepak C Gupta from Reliance. Please go ahead.

Deepak C Gupta: I just want a couple of clarifications when we talk about the EBITDA guidance for FY2021 to be 10% to 12% growth our nine months is already 15%, so are you expecting outside potential?

Anand Vora: We generally do not change the guidance, you guys are smart with the numbers you can make a good assumption.

Deepak C Gupta: Sure and secondly Anand on net debt the guidance again of two times it obviously means that a large reduction of net debt is expected in Q4 would that be largely on account of higher cash balances on the balance sheet to factor in or would it be actually repayment of debt?

Anand Vora: I think we will work towards repayment of debt. I think in general because of the pandemic there is an expectation to keep reducing our gross debt so it will be a mix of both, but we will definitely try to. We have full flexibility now and in fact today I am getting loans at much lower rates also, so in case there is no harm in paying back I think world has come back to normalcy, at least the banks have come back there in and lending more and they are looking for good assets like companies like us are definitely approached aggressively by the banks and offering at much lower rates, so we will work towards repaying all our high cost gross debt and if we need be we will take some short term borrowings.

Deepak C Gupta: Sure and just wanted one confirmation, is there perpetual bonds also included in our gross debt number?

Anand Vora: In gross debt number we keep it as part of the equity/ networth.

Deepak C Gupta: Understand. Great. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, in the interest of time we will take the last question. The last question is from the line of Shubhra Shah from CARE PMS. Please go ahead.

Shubhra Shah: Thank you Sir for the opportunity. I had just one question. This is with regard to the ban of Mancozeb in East and what impact will it have on initial sales and as I understand the ban is effective February 2021 so what impact do we see on UPL?

Diego Casanello: Yes as we have mentioned it in former calls that we have been obviously evaluating that scenario since a couple of years now and for that reason also we have put in place the pipeline that helps us replace losses with other products, so we have a plan let us say to replace some of it uses. Overall the share of Mancozeb that we sell in Europe is small compared to the Mancozeb witnessed that we have around the world, so it is not going to be significant for moving the needle next year for our growth. Apart of that we are contesting the decision in court because we believe that we have good reasons to defend Mancozeb from being banned in Europe, but that I will say something we are doing in parallel. From a business standpoint you can count that we have enough products to fill those gaps.

Shubhra Shah: Okay Sir thank you so much.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now like to hand the conference over to Mr. Anand Vora for closing comments. Over to you Sir!

Anand Vora: Thank you. Thank you everybody for joining us on this call. If you have any followup questions, please reach out to Radhika Arora or myself and we will be happy to answer. Thank you very much.

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