"United Phosphorus Limited
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Moderator: Ladies and gentlemen, good day, and welcome to the UPL Limited Q3 FY 2023 Earnings Conference Call. As reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Ms. Radhika Arora. Thank you, and over to you, ma'am.

Radhika Arora: Thanks, Vikram. Good morning and good evening to everyone. Thanks for joining us today for the results for the quarter and nine months ended 31, December 2022. On this call, we will be referring to a presentation that is available on our website, and we take as having read the safe harbor statement. From the management team, we have with us today, Group CEO, Jai Shroff, CEO of Global Crop Protection business, Michael Frank, Group CFO, Rajendra Darak, Global CFO, Anand Vora, Supply Chain Officer, Raj Tiwari, CEO of Advanta business, Bhupen Dubey, and the Head of India Region, Ashish Dobhal.

We will start with an overview from Jai and Mike and a financial update from Anand. With that, let me now hand it over to Jai. Over to you, Jai.

Jaidev Shroff: Thank you, Radhika. Good morning to everyone. UPL continued to deliver strong numbers in quarter 3, with 21% growth. The Global Crop Protection platform grew 22%, Advanta Seeds business grew 31%, while the Indian AgTech platform, UPL SAS, remained flat despite unfavorable market dynamics in India. The rabi season, however, looks promising for India.

All the regions in the Global Crop Protection business, except for Europe, reported double-digit growth with Americas, particularly witnessing strong traction, growing by almost 30%. In fact, in Europe as well we grew the business 10% in euro terms. The growth in Advanta Seeds was supported by both volume and price realization, primarily in sorghum, sunflower and field corn.

I'm pleased to share that the minority stake sale in the Advanta Enterprise has been successfully completed. For the stake sale in UPL SAS, we received all approvals, and the entire process has been completed. We expect to receive investment from investors in UPL SAS in the fourth quarter.

And lastly, one of our platforms, the Specialty Chemicals business is scaling rapidly. Over the last four years, we have grown this business from INR 600 crores to INR 1,500 crores in 2022. So far, during the first nine months of FY2023, as well, our Specialty Chemicals business grew by 22% YoY to over INR 1,250 crores.

We believe that this platform will continue to grow at 25% CAGR over the next three to five years. To scale rapidly, we are entering into new chemistries, expanding capacities for existing molecules and operationalizing the recently acquired Kudos manufacturing plant, among other initiatives. UPL is building a unique platform of capabilities to cater to the growing Indian specialty chemical market demand as this market continues to grow in all sectors in India.

On sustainability front, as most of you are aware, one of our key focus areas has been to drive sustainable farming practices globally. So it's heartening to see that UPL continues to be ranked Number 1 Agrochemical Company in sustainable performance by Sustainalytics for the third year running.

Finally, looking ahead to the fourth quarter, we are confident of continuing our growth momentum and ending the year on a strong footing. As stated earlier, we are confident of achieving the committed reduction in net debt to US$ 2 billion by March '23.

On that note, I now hand over the floor to Mike who will take you through a detailed overview of the global business performance. Over to you, Mike

Michael Frank: Thank you, Jai, and hello, everyone. I'm now pleased to share some highlights for our third quarter fiscal year '23. As you can see from our numbers, the team at UPL once again delivered strong performance despite a number of challenges across the agricultural landscape. At the core of our strategy, we are serving farmers and growers across the globe, bringing new technologies and services to help them improve productivity, reduce risk, and to grow the fruit and crops they produce more sustainably.

To activate this strategy is our customer-centric and agile organization, our unique backward integration and supply chain excellence, all of which have constantly helped us deliver impressive performance quarter-after-quarter. I'm very proud of the overall efforts and focus across our organization this past quarter.

Moving to the financial results. Our growth was driven by improved price realization across regions and strong overall demand, which was supported by constructive grain commodity prices. The key regions that drove the growth in this quarter were Latin America, North America and India, each of which had strong growth versus last year in the same quarter.

In fact, Latin America alone accounted for 54% of our total growth in revenue this quarter. Overall, our revenue has grown by 21% compared with the same quarter last year. Contribution profit is up by 20%, and margins are about the same, which is at 43%.

Our EBITDA grew by 14% on a year-on-year basis. This was achieved despite significant and very specific investments we made in enhancing our customer relationships and farmer connections. These investments will provide us with the teams and capabilities we need to drive our differentiated and sustainable portfolio. Overall, we delivered strong EBITDA and net profit.

Now let me talk about performance of our regions in the quarter. In Latin America, we achieved 28% revenue growth. Brazil growth was especially impressive, driven primarily by insecticides and fungicides. Key insecticide products among those were Perito and Feroce, with higher volumes and price realization.

Also in Brazil, our growth was supported by the ramp-up of fungicides such as Evolution, a new product for us and a fantastic fungicide and a key product in our differentiated offerings. In

Mexico, growth was driven by fungicides and our natural plant protection, biosolutions business. And growth in Argentina, despite challenging weather was very good through our herbicide products. In North America, revenue grew by 30% in this quarter, driven by equal mix of improved pricing and growth in volumes being further supported by favorable exchange rates. Herbicides and our NPP sustainable solutions were key drivers for this growth.

In Europe, our revenue grew by around 3% versus last year, impacted primarily by the Euro devaluation, products bans, unfavorable weather and ongoing conflict in the region. However, despite such external challenges, we grew by an impressive 10% in the region in Euro terms. Differentiated products witnessed growth in that region primarily through our insecticides and fungicide portfolios.

In India, our strong Q3 growth of around 19% versus last year was largely driven by our seeds business, Advanta. However, on crop protection, we were flat versus previous year due to unfavorable weather and overall high channel inventory, leading to lower volumes. However, this impact was compensated by improved price realization. Going forward, Q4 in India is expected to be a strong quarter for us, driven by our sugarcane portfolio and fast-growing seed treatment segment. We also expect to see strong traction in volumes in our newly launched multi-crop fungicides and insecticides.

In the rest of the world, our business was up around 12%, driven primarily by improved pricing despite high channel inventories in parts of Southeast Asia, and also unfavorable and specifically wet weather in several parts. Growth was primarily driven by insecticides in Southeast Asia, which was partly aided by the acquisition of PT Excel in Indonesia last year as well as our herbicide business in Australia and New Zealand.

We remain committed to reimagining sustainability, and also to reiterate as Jai mentioned, UPL ranked Number 1 in our industry for sustainability performance by Sustainalytics for the third year running, which is a fantastic recognition of the hard work and great work our teams are doing across the board.

Before I hand over to Anand, our Global CFO, I would like to highlight that we are well placed to deliver strong growth for the full year on the back of our very strong order book. We are, therefore, confident of delivering at the higher end of our FY '23 guidance of 12% to 15% revenue growth and 15% to 18% EBITDA growth.

Q3, as you can see, has been a successful quarter for us, wherein we continue to deliver growth following our strong first half performance. Consequently, in the first nine months of FY '23, we are focused on achieving overall quality growth with an improved product mix and major pricing actions, which has enabled us to improve our margins and deliver robust 24% year-on-year growth in EBITDA.

Going forward, as we look ahead to the fourth quarter, the demand for agro chemicals continues to be strong, especially in the Americas. Our pipeline for volume growth in Q4 is supported by

our new differentiated launches such as Evolution in Brazil and Preview in North America, plus several launches in India.

Further, while concerns related to crop protection product bans in Europe remain, we are well poised with our NPP biosolutions offerings there. Overall, we will continue to be diligent with SG&A spend despite being in an inflationary environment across various expense items.

Finally, I'd like to congratulate our team for their resilience, dedication and unified focus in delivering such a strong performance this quarter.

I'll 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 third quarter and the first nine months of the year, followed by an update on working capital and debt.

We continued to deliver a strong performance in quarter 3 with revenues growing by 21% year-on-year to INR 13,679 crores. This is in spite of the challenging environment we face marked by pricing pressure on few molecules, the unfavorable weather and high channel inventory in some regions, including India and the continuing geopolitical uncertainty in Europe.

But more significantly, we also saw a strong year-on-year growth of 20% in contribution profits on the back of an improved product mix and rationalization of sales of low-margin products. The contribution margin for the quarter stood at around 43%. EBITDA at INR 3,035 crores showed a growth of 14% from that of the previous year. EBITDA margins for the quarter stood at 22.2% as we continue to invest in SG&A. However, the same is in line with our expectation of the guidance provided for the full year EBITDA growth.

Net finance costs increased by 49% from INR 493 crores to INR 732 crores with almost entire increase coming primarily due to significant rise in benchmark rates globally. We saw on a ballpark 400 basis point increase in benchmark rates, in-line with the increase in US. Treasury rates. Further, FX impact for the quarter was in line with that of the same quarter previous year despite the increase in cost of hedging during the quarter, largely driven by increase in benchmark interest rates. Overall, the net profit for the quarter stood at INR 1,087 crores, showing a healthy 16% growth.

Coming now to our first nine months performance. Revenue crossed the INR 37,000 crores mark, recording a growth of 22%, while the contribution profit grew by 24%. Contribution margin at 43% showed an improvement of 90 basis points over that of the previous year.

Since the beginning of this fiscal, our emphasis has been on delivering quality growth with a better product mix and rationalization of sales of low-margin products. Besides, the cost pressures also led to higher pricing as is reflected in significant positive price variance from that of the previous year. We expect to see healthy volume growth in Q4 with the prices now

stabilizing around current levels, supported by new product launches and strong demand in Americas and India, as alluded by Mike earlier.

On operating profit front, EBITDA rose sharply by 24% to INR 8,145 crores, with margins improving by 40 basis points to 22%. This is in line with the guidance provided for the full year. Net finance costs increased by 60% from INR 1,231 crores to INR 1,980 crores, of which almost INR 432 crores or about 58% increase coming primarily due to significant rise in benchmark interest rate. We saw a ballpark 400 basis point increase in benchmark rates throughout the nine months over that of the US treasury rate. Effective tax rate for the first nine months stood at 11%, and should be around the guided figure of 15% for the full financial year. Finally, we saw a robust expansion in our net profit, which was 24% higher at INR 2,777 crores for the first nine months. Moreover, our earnings per share for the same period grew by 26% at INR 35.1.

Coming now to the working capital. Given the seasonality of our business, as most of you are aware, the working capital increases through the year, peaks in Q3 and decreases substantially in Q4. In addition to this, our inventory levels are higher primarily on account of our current decision to sell closer to the season and thereby offering low credit terms to improve the receivable days and also because of the strong demand in Q4, along with uncertainties in supply chain. As a result of these factors, working capital days increased to 121 days at the end of December '22, an increase of 13 days from that of the previous year. Considering the strong demand and push for low credit terms, we expect to end the year in line with the guidance of 70 to 80 days of net working capital.

But what is important to call out here is that for the first nine months of the current fiscal, the business generated cash flow of $636 million. With the help of cash generated by business and additional cash inflow of $59 million coming from the corporate realignment, we reduced our net debt by $173 million sequentially to $3.3 billion as compared to September 2022 levels of $3.5 billion. On a year-on-year basis, this gives us confidence that we are on course to reduce our net debt by $500 million and bring it down to $2 billion as guided, as of 31, March 2023.

With this expected reduction in debt, the net debt-to-EBITDA ratio would stand below 1.4x by the end of financial year. As regards to corporate realignment, as Jai alluded to earlier, we have closed the seeds business by transferring it to Advanta Enterprises Limited effective 1st of December 2022. Further, we also bought out 22% of ADIA, TPG in the international seeds business and our other non-crop protection business for $241 million. So post both these transactions, we have received a net inflow of $59 million.

The pro forma numbers of Advanta Enterprises for the third quarter and nine months have been provided in the presentation on Slide 14. And from the next quarter onwards, we shall be providing audited numbers. The key financials of Advanta seeds for the third quarter are, revenue stood at INR 912 crores, reporting a robust growth of 31% over that of the previous year, while the growth in EBITDA was much faster at 54% to reach INR 275 crores. EBITDA margins improved significantly by 460 basis points to 30%. On a year-on-date basis, Advanta

delivered a strong performance with revenue increasing by 31% to INR 2,736 crores and EBITDA growing by 41% to INR 772 crores.

Finally, I'll now give you an update on the realignment of UPL Sustainable Agri Solutions business. The stake sale in UPL SAS is expected to be completed very soon, and we have already received the requisite approvals. As stated earlier, the net inflow of $200 million received from the sale of stake in UPL SAS will be used to retire the debt in Q4.

With this, I now ask the Moderator: to open up the floor for question-and-answers.

Moderator: We have our first question from the line of Jiten Doshi from Enam Asset Management.

Jiten Doshi: My simple question is that, are we expecting this $500 million debt reduction at the gross level or at the net level?

Anand Vora: We'll be doing it at the gross level.

Jiten Doshi: So we would say about INR 4,000 crores-plus gross debt gets reduced?

Anand Vora: Yes. Of course, that will reflect in the net debt also.

Jiten Doshi: So what would that translate into interest cost savings for the next year?

Anand Vora: Roughly, our average interest cost on borrowings is 6-6.5% in dollar terms.

Jiten Doshi: It's very high.

Anand Vora: No, with LIBOR at almost 5%, we have the finest cost of borrowing as compared to pretty much anybody in the industry.

Jiten Doshi: Now do you believe that our working capital cycle you've got a good grip in, so this will now be an annual feature in terms of debt reduction?

Anand Vora: We have started certain initiatives to bring down our working capital. As you are aware that we announced the joint venture with Bunge in Brazil as one way to go-to- market strategy, which would help us to bring down our working capital in Latin America. There are several other initiatives which we are taking internally to bring down the working capital. So its work in progress and we will continue to use the cash generated from business to reduce the debt.

Jiten Doshi: So going forward, this is going to be a recurring feature in terms of debt reduction?

Anand Vora: Yes. I mean, as you have seen, you have been a long-term investor with us, whenever we have surplus cash, we have used it to reduce the debt. This happened in 2013 to 2015. And for sure, we will use, whatever surplus cash is generated, we'll use it to reduce the debt.

Jiten Doshi: So this means your balance sheet shrinks, in terms of the ROCE, we are not able to see the reflection. So if there's a shrinkage in the balance sheet, then the real ROCE of the business comes out.

Anand Vora: Yes, definitely

Jaidev Shroff: So Jiten Bhai, by the incentive to manage working capital tighter when interest rates are higher, the whole industry as such has a much, much stronger incentive. When interest rates were near zero, there was no incentive for the industry to really tighten up credit because it was a much easier way for smaller companies also to give credit. So, we believe that generally, as interest rates become stronger, the industry will get much more disciplined because there is a real cost to giving longer credit terms.

So, in general, we believe that the working capital for the whole industry will get tighter because the cost of capital is now real. whereas before it was nothing. So you will see the whole industry tightening up and we will benefit from that. And obviously, working capital cycles will reduce.

Jiten Doshi: So this now becomes a trend, and on the contrary, it's very good because cash flow keeps on getting released.

Anand Vora: That's right.

Moderator: We have next question from the line of S. Ramesh with Nirmal Bang Equities.

S. Ramesh: Congratulations on the good numbers. So my first thought is when you look at the margin decline in the EBITDA margins, while you talked about increase in the revenue from sustainable and differentiated products. If you can throw some light in terms of how this has happened because we're looking at increase in the contribution from your higher-margin products, the margin compress shouldn't have been so much, 140 basis points. So can you shed some light on that. It would be useful.

The second thought is, what is the kind of sense you have in terms of the sense for commodity prices and the excess inventory carryover and the potential slowdown in the growth in volume, because the volume growth has been at a premium, although global companies are talking about sustained sense in commodity prices. Is there any risk to your volume growth aspiration, say, in the next couple of quarters given the volatility, and rather how do you read that over the next two quarters?

Michael Frank: Yes. So, Mike here, maybe I'll just take a first pass at this and Anand, you can make some comments as well. So, as you can see from a contribution margins standpoint, our margins are relatively flat at close to 43%. So I think based on the mix of our sales, we're seeing very similar margins. Obviously, last year this time, feedstocks were going up. We were pricing into that marketplace, but we were also liquidating inventory a year ago that was at a lower average cost of goods. And so, at this point in time, I mean, that was a benefit that we got last year that we wouldn't able to enjoy this year.

So overall, we're quite pleased with our contribution margins at 43%. If you go down to EBITDA, as I mentioned, we made some significant investments in our customer relations, specifically in Q3. And these were customer events, farmer promotions, and we did that specifically to really benefit our business over the next several years. And so we made that investment. And we think it was the right thing to do. But obviously, it did have an impact on our EBITDA margins.

Now with respect to your second question, from an inventory carryover standpoint, obviously, we're going to continue to de-inventory as we go through Q4. We're expecting strong volume growth in Q4. As we commented a quarter ago, across the year, we're expecting mid-single-digit volume increase. And so, we still have that expectation. So we are expecting a really strong volume growth in Q4. And that will put us in a position where most of our inventory is fresh at the right cost of goods based on the durability of our supply chain. And so, I think that's a growth going into FY '24.

Yes. And maybe just on commodity prices. I mean the good news in our business is the grain commodity prices, whether it be wheat or corn, soybeans, for a lot of the major commodities, the commodity prices are remaining very strong, and that's having a solid impact on the demand side of the equation. So we expect overall demand to stay strong. We're seeing it right now play out with soybeans in Brazil. And in the near future, we're going to be moving to Safrinha corn, so we would also expect to see higher Safrinha corn acres. And again, that will create opportunities for us from an overall volume perspective. And so at this point, we see this setting up well.

S. Ramesh: So as a follow-up to that, Jai made some comments on your plans in specialty chemicals. So where is that reflected in your numbers? And is that something which you expect to contribute to your EBITDA and net profits in a meaningful manner say, in the next two years? Where do you see that?

Jaidev Shroff: Yes, that's a profitable business segment, and it's growing fast. As we said, we expect it to continue to grow. It will contribute to increase the EBITDA. And as we share more details, we will start disclosing segment wise, while we report it. So you will see that.

S. Ramesh: Is it something, like custom synthesis business? Or is it more of a merchant sales with your key customers across the world? And what is the kind of growth one can expect, say, in the next five years? And what are the investments we need to make? So that will give us a good perspective on that.

Jaidev Shroff: So that business is, as we said, going to grow at about 25% CAGR. And we are constantly making investments. So, we are not disclosing the exact investment quantum, but it's going to be substantial.

Moderator: We have next question from the line of Vishnu Kumar from Spark Capital.

Vishnu Kumar: In the press release, you have highlighted that there is channel deinventory taking place in certain markets. Any thoughts if you could just give on this particular point?

Michael Frank: Yes. So on channel deinventory, if you just go back in time over the last 24-plus months, there was supply chain concerns. And so, we did see manufacturers also build up inventories, but also at the distribution and retail level. And so, if you look at this, it's really probably a pretty much a global reality that distribution levels for Ag chemical products are a little bit higher than normal. In addition to that, obviously, as we talked about interest rates, those companies are also trying to manage their working capital. And so, we do expect over the next two to three quarters some level of deinventory back to normalized inventory levels.

When we look at our businesses and our products specifically, we've been very disciplined. And so, you can see that in our volume growth on a year-to-date basis. We haven't been oversupplying the channel with our products. And so we believe that while we will have some headwinds because this will be an industry-wide impact, in our portfolio, we'll be well positioned, I think, versus some of the rest in the industry.

Vishnu Kumar: So, you expect the pace of this to further increase or we're just at start of deinventory situation? Is it starting? Or we expect it to quicken pace in the next couple of quarters?

Michael Frank: Yes. I think it can balance out within two to three quarters. And so, we probably saw a little bit of it happening already in our Q3 as we came through December. We would expect it again to be a feature in Q4. Again, we have guided to a strong Q4. But this will be an industry impact that we do expect to play out over the next several quarters.

Vishnu Kumar: In terms of our growth, most of it has been pricing and obviously FX. And I mean, commodities have gone up a lot in the first half and our pricing has kind of caught up. Now, over the next couple of quarters, if the commodity, if the crude and other related commodities soften, should we see a price reversal in the next six, nine months? Do you see that as a trend? Just your thoughts again on this.

Michael Frank: Yes. I mean at this point in time, maybe I'll have Raj from the supply chain perspective make a few comments. We are seeing that overall, feedstock costs have come down a little bit, but I would say, they're generally stabilized at this point. And so unless we see further decline in feedstocks, I wouldn't expect for too much further pricing erosion. Raj, do you want to make some comments?

Raj Tiwari: No, I think you said it. So basically, the prices are actually at a cost-plus level today. Unless that there is some significant development happening on the geopolitical scenarios, the price is going to be at this level. And then from the quarter 1 onwards, when the demand starts picking up, then we feel that the prices may start going northwards. But at the current level, they have bottomed out.

Vishnu Kumar: So should we expect a double-digit pricing even in the fourth quarter?

Michael Frank: Yes. I would say, expectation is we're going to continue to see some price growth. It may not be in the double digits, but it will be solid. I think what we'll see versus the first three quarters, more growth to volume. And so that's based on our order book. In our sales plan, that's what we would expect to happen in Q4.

Vishnu Kumar: And one last question on the debt. Heartening to see the $500 million reduction target. What would be the factoring of the receivables, I mean, which we have factored by end of March? A rough understanding of what the number would be? Last year, I think March was INR 12,000-odd crores. How much would the number probably be by end of '23, March '23?

Anand Vora: Vishnu, Anand here. As we have guided earlier, we will try to peg it at about $1.6 billion, but you could see some increase, although the increase will be lower than the growth in sales. So, increase in our non-recourse factoring over last year would be lower than that of the increase in sales growth.

Moderator: We have next question from the line of Sonali Salgaonkar with Jefferies.

Sonali Salgaonkar: Sir, my first question is just a bit of a clarification on the debt levels. As per your press release, currently, as of December '22, we have INR 275 billion of net debt. That's about $3.3 billion. And we are expecting to get that down to $2 billion by the end of March quarter. So how much reduction are we expecting in Q4, please?

Anand Vora: So that's the delta, close to $1.3 billion.

Sonali Salgaonkar: And on a year-on-year basis, at March '22 to '23, we are expecting $500 million of debt reduction. Is my understanding correct?

Anand Vora: That's right. That's correct.

Sonali Salgaonkar: So what is the net debt-to-EBITDA target that you are targeting?

Anand Vora: As I said in my commentary, it's going to be around 1.4x. If we deliver $2 billion of net debt, it should be in the range of 1.4x, net debt-to-EBITDA.

Sonali Salgaonkar: And you also did mention in the initial comments that you are expanding capacities. So in light of that, what is our capex guidance?

Anand Vora: We had a budget of INR 3,300 crores, both tangible and intangible. But we may end up doing much less than that.

Sonali Salgaonkar: Sir, and lastly, you did mention that there is some amount of high SG&A as per your press release. So where should we expect the SG&A to settle down at? Or do you expect it to keep on increasing in the coming quarters if you are wanting to increase your brand visibility?

Anand Vora: Sonali, we generally don't guide for SG&A. We guide for the EBITDA, and that's something which we focus on. And we will deliver, as Mike alluded, we will deliver -- we'll be on the higher side of our guidance for both revenue as well as EBITDA growth.

Sonali Salgaonkar: And just one last question from my side on the volume growth. This quarter has been almost flattish. That's 1% volume growth. With the channel destocking happening in Q4, how do you foresee the volumes?

Michael Frank: Yes. So as I mentioned, we are expecting a strong volume growth in Q4. Again, the way we work with our channel partners, we haven't loaded prematurely. In fact, if anything, we're trying to place the product closer to the sales window to help the supplier. So as I said earlier, we do expect strong volume growth. And I think based on, again, our order book and our relationships with our channel partners, we have a path to achieve that.

Moderator: We'll take the last question from the line of Rohan Gupta from Nuvama.

Rohan Gupta: Sir, just continuation from the previous question on the volume growth. So generally, when we guide, in the start of the year we only factor primarily volume-led growth. And thankfully that this year our price-led growth has been very solid, that has helped. But otherwise, even on an adjusted basis also we had roughly just flattish or on a nine-month just 2% kind of volume growth. So in terms of this inventory destocking which you're talking about, do you see that it is across? Or we have lost market share or the market itself has been just flattish in this year?

Michael Frank: Yes. I would say, from an overall POG, the product that's sold on ground and put on ground by farmers, the market is probably slightly up this year in the low-single digits. And again, as we think about our volume that we're placing, where we're expecting on volumes our year to be up about mid-single digits, we will maintain our share or maybe grow it a little bit with respect to a product that's sold all the way through to farmers and put on the ground.

Again, we're being very disciplined in terms of the timing of our product to our distributors and then working with them closely so that you can all manage our working capital. So yes, so I would say, we're very focused on not losing market share, but at the same time, managing working capital and being very smart in terms of where we have opportunities to take price and margin when we are doing that as well.

Rohan Gupta: So sir, to maintain our target in guidance of a single-digit volume growth, if that all has to come from Q4, it means that we are looking a very solid or maybe high double-digit volume growth for Q4, then only probably single-digit volume growth should be possible for the entire year. So is that understanding right? That is one.

And if that's so, even if you're looking at double-digit volume growth, and we are on the other hand, we are also looking at the working capital or the overall debt reduction to come down by almost $1.3 billion. Even in Q4, the volume growth is so strong that is going to drive the revenue growth significantly. On back of that, we are still looking at $1.3 billion debt reduction, slightly

contradictory in terms of understanding. So if you can give some explanation on this, would be very helpful, sir.

Michael Frank: Sure. As we come through Q4, there are a lot of moving parts. We will deinventory at UPL level. We will have solid volume growth in our sales. We also have, by far, our strongest month of collections. And as Anand just mentioned earlier, we have some headroom from a factoring standpoint. So all of those things will come together, help us manage working capital, help us reduce our debt and again, I think, finish the year strong from a performance standpoint, but also set up our FY '24.

Rohan Gupta: Sir, just last question from my side. Sir, on a factoring, you mentioned that looking at the target of close to $1.6 billion. I get a point that it will not be in line with the increase in sales increase. So, it will be slightly less, but it's still probably will be slightly higher than $1.6 billion. What is the factoring number, sir, right now when we end this quarter?

Anand Vora: $1.1 billion.

Rohan Gupta: So we are looking close to the $500 million kind of increase in factoring, that to support release some cash on the balance sheet. That is helpful, sir.

And sir, if you can just give some further breakup of this factoring number because we have been focusing on reducing the factoring from Brazil and moving to other markets. Some broad number in terms of share that out of this $1.1 billion right now, how much share is from Brazil market and how much is from other world markets?

Anand Vora: Roughly, it's about $500 million in Brazil. The rest will be all in the global markets.

Moderator: We take the last question from the line of Dhruv Muchhal from HDFC Mutual Funds.

Dhruv Muchhal: Sir, you mentioned about the excess inventory across the industry. At the same time, we are seeing that the technical prices from the Chinese market or from even Indian markets have started to come down. So the combination of two, do you think this could be a cause of concern for the industry as a whole? And also, how is the UPL positioned? This probably could be a near-term thing or very short-term thing, but just wanted to understand the situation?

Michael Frank: Yes. Very good question. And again, the way we manage our business and work with our channel partners, I think we're well positioned coming into Q4 and setting up for FY '24, if you look at it company-by-company. But at the industry level, I would not expect to see as strong growth across the industry coming into this next year. I think it's going to be a tighter mark, there will be some deinventory. As you said, there will be some price pressure coming out of the Chinese manufacturers. And so, that will have some impacts industry-wide. But I think, again, from our perspective, we're focused on delivering a strong Q4 and getting set up for next year.

Dhruv Muchhal: And probably, the second question was on the interest cost. Should we believe the Q3 interest number, about INR 890 crores, ex of the FX, I'm not sure what the FX amount here is, should

be the peak number from given all of the interest increase, I mean, I'm trying to understand, is the interest cost increase largely factored in the Q3 number? Or can there be a further upside to this?

Anand Vora: With the debt reduction plan for Q4, I think this should be the peak that we saw on a quarterly basis. So we should see a reduction in interest costs as we move forward purely because we are reducing the debt.

Dhruv Muchhal: But from an interest rate perspective, is largely everything factored in Q3 numbers? Or there's still some lag effect still remaining?

Anand Vora: No. Everything is factored.

Moderator: Thank you. I would 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 today. If you have any follow-up questions, you could reach out to Radhika Arora or you can reach out to me. And...

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