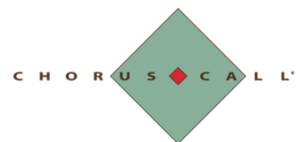
"UPL Limited
Q2 FY '23 Earnings Conference Call"

November 01, 2022



MANAGEMENT: **MR. JAIDEV SHROFF – GROUP CHIEF EXECUTIVE**
MR. RAJENDRA DARAK – GROUP CHIEF FINANCIAL OFFICER
MR. MIKE FRANK – CHIEF EXECUTIVE OFFICER OF GLOBAL CROP PROTECTION
MR. ANAND VORA – GLOBAL CHIEF FINANCIAL OFFICER
MR. RAJ TIWARI – CHIEF SUPPLY CHAIN OFFICER
MR. FAROKH HILLOO – GLOBAL CHIEF COMMERCIAL OFFICER
MS. RADHIKA ARORA – HEAD OF INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day, and welcome to the UPL Limited Q2 FY '23 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 star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Radhika Arora. Thank you, and over to you, sir.

Radhika Arora: Thank you. Good day, everyone. Thanks for joining us today for the results for the quarter and half year ended 30th September 2022. On this call, we will be referring to a presentation that is available on our website, and we take us having read the safe harbor statement.

From the management team, we have with us today Group CEO, Jai Shroff; Group CFO, Rajendra Darak; CEO of Global Crop Protection business, Michael Frank; Global CFO, Anand Vora; Chief Supply Chain Officer, Raj Tiwari; and our Global Chief Commercial Officer, Farokh Hilloo. We will start with an overview from Jai and Mike, followed by a financial update from Anand. With that, let me now hand it over to Jai. Over to you, Jai.

Jai Shroff: Thank you, Radhika. It's a pleasure to talk to all of you, and good evening, good morning. I'm delighted to share the excellent performance of our business with all of you, we had a robust 18% growth in revenue and 35% growth in EBITDA. We are encouraged with the growth in all key markets except Europe and the above 20% growth in all these markets, which shows the ability of our team to really focus on improving margins.

The EBITDA improvement is a key focus area for us, and the company is focusing on cash generation in the following quarters. We have committed to reduce our net debt by $400 million through cash generation from operations. We also have announced a strategic realignment of our businesses where we have separated our Advanta Seeds business and our AgTech business in India to really show the true value of these businesses. We have got marquee investors like ADIA and TPG, Brookfield and KKR to invest in these businesses and to show how valuable these platforms are.

Today, Advanta is one of the largest seed companies in Asia. And so is our AgTech platform, one of the largest platforms. The net cash generated through this strategic alliance will be about $260 million, which will go towards debt repayment. Altogether, including the share buyback, we are talking about a net reduction of $650 million by end of 2023.

Looking at the second half of the year, we remain in a position to continue our growth through price improvement and volume growth. Given the backdrop of the challenging year we had, we believe that UPL will continue to grow towards the rest of FY23.

In line with the global governance standards, we have had some long-serving board members who have contributed significantly towards the growth of the company, some of them will be retiring and making way for new board members. I want to thank each one of the Board members for contributing towards the growth of UPL. Also, there will be introduction of new members, Carlos Pellicer and Raj Tiwari, who will join the Board of UPL. With that, I would like to hand over to Mike.

Michael Frank: Thank you, Jai, and hello, everyone. I'm pleased to share our Q2 results, which have seen strong improvement versus last year, despite continued uncertainties and volatility in the current macro-economic environment. I'm really proud of the discipline of our sales process led by our on-the-ground agile team, our strong customer relationships and supply-chain excellence that have helped us deliver this performance, despite headwinds from global inflationary pressures, geopolitical uncertainties and unfavorable weather conditions in key markets. So, in Q2, we continued with our strong growth, supported by improved price realizations in herbicides and tailwinds through strong Ag commodity prices. The key regions, as Jai mentioned, that drove the growth in this quarter were Latin America, North America, India, and our Rest of World region.

In fact, each of these regions posted a growth of 20% or more versus the previous year. We have achieved very strong margin improvement in Latin America which comprises nearly 50% of Q2 revenue, thus leading to overall margin accretion. We also continued with our strong performance in North America supported by our growing product offerings and through effective key account management with US distributors. Europe had flat revenue due to euro devaluation and other macro challenges. However, given the current environment, we believe our growth in the region has been impressive in euro terms, which has grown about 13% versus the previous year.

Moving to the financial results. I'm pleased to report our strong performance led by disciplined pricing, with increases across most of our portfolio, and that has led to significantly improved contribution margins. Our revenue has grown by 18%, as Jai mentioned, and EBITDA is up by 35% on a year-on-year basis. Our contribution margins grew by 27% with margins now around 43%, which is an impressive 290 basis points higher than last year, again, driven by our multipronged approach of improved pricing, our focused product mix, and portfolio rationalization. This has all helped us in improving business quality, specifically in Latin America, which was our major region for the quarter.

So led by strong improvement in overall contribution margin, our EBITDA margins improved by 278 basis points versus last year, helping in strong bottom-line expansion of 28% year-on-year despite higher finance and hedging-related costs. In terms of market access, we continue to build on our capabilities and continue to hold strong positions as a preferred partner. For example, with Orígeo, now approved in Brazil, we see the opportunity to expand our market penetration.

For year-to-date, as you can see, we've increased our overall inventory levels as we anticipate a strong second half. We've been very disciplined in our approach of timing our sales closer to the application season, working in partnership with our channel to ensure we meet the demand as it happens. We anticipate a significant reduction in our inventory levels as the second half of the year evolves.

Taking a quick look at regional performance for the quarter. In Latin America, we achieved a strong 20% growth led by our herbicide portfolio and improved pricing. Brazil was the key growth region driven by robust demand for post-emergent herbicides and strong price realizations. This was further supported by Evolution, which is our new product in the fungicide segment. We also had nice growth in Argentina and Andean countries to provide overall lift for the region this past quarter.

In North America, revenue grew by a strong 24% on the quarter, led by improved price realization in our herbicide segment and strong grower demand and channel support. All of this despite dry weather conditions in Western USA, impacting specialty crops and the rice market.

As I mentioned, in Europe, our revenue was flat versus last year due to the euro devaluation. However, in euro terms, we achieved impressive growth despite the challenges of unfavorable weather, product bans and the ongoing conflict in the region. Among key sub-regions in Europe, growth was strong in Germany and in many Central European countries.

In India, our Q2 growth of 22% was led by herbicides, primarily glufosinate products, new insecticide launches in Paddy and cotton crops; NPP Biosolutions and the crop establishment segment. This was supported by improving pricing in key products. Going forward in India, we expect the market to be supportive with favorable pricing of key crops, such as rice and wheat. We are confident of our strong growth in the second half, driven by newly improved Flupyrimin in rice and a new three-way mixture herbicide for sugarcane along with NPP Biosolutions and seed treatment products in key rabi crops of wheat, potato, and cumin.

In the Rest-of-the-World segment, we delivered 21% growth, driven by significant volume increases and improved price realizations. Strong growth was achieved in Southeast Asia and Australia as well as Southern Africa, driven by our broad portfolio in those regions. Among other major markets there, Japan was flat despite significant devaluation of the Japanese yen against the INR.

We remain committed to our reimagining sustainability initiatives under which we have launched the Gigaton Carbon Goal. And this past quarter, we launched it in Rwanda, Kenya and other Western and South African countries in collaboration with the FIFA Foundation, which was after our successful launch in Europe in Q1.

Before I hand it over to Anand, our Global CFO, I'd like to highlight that we are well poised to deliver strong growth for the full year on the back of our strong order book. We, therefore, maintain our FY'23 guidance of 12% to 15% growth in revenue and 15% to 18% growth in EBITDA. Our strong first half performance, along with anticipated robust demand for our solutions portfolio and product optimization in H2, will further support our guidance. We are confident of delivering our second-half growth on the back of increased market share and improved realizations.

Further, we shall continue to be diligent with SG&A, despite being in an inflationary environment across various expense items. Lastly, we're also committed in the last part of the year towards efficient working capital management, which will help us in reducing net debt for the year, as Jai just mentioned.

I'd like to further congratulate our team for their resilience, dedication and unified focus in delivering such a strong performance in this quarter despite the challenges on several fronts. 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 second quarter and first half of the year, followed by an update on working capital and debt position. At the outset, I'm very happy to share that we have delivered a strong all-round operational performance in the first half of the financial year '22 to '23, marked by robust top-line growth and significant improvement in EBITDA margins.

On the performance of quarter 2. Our quarter 2 revenues were at INR 12,500 crores, representing a healthy growth of 18% primarily led by better price realization as the key crop prices continue to remain strong. The price increase of 21%, exchange benefit of 4% was partly offset by the negative volume variance of 7%. More importantly, it is heartening to see that our contribution margins improved by 290 basis points to 42.6%, leading to a robust growth of 27% in contribution profit to INR 5,324 crores.

As Jai alluded to earlier, the improvement in contribution margin was on account of our conscious focus on driving quality growth by shifting the product mix in favor of high-margin products, rationalizing our product portfolio and negotiating better credit terms. Robust growth in contribution margin, coupled with efficient OpEx management, resulted in 35% growth in EBITDA to reach INR 2,768 crores.

SG&A expenses, as a percentage of sales, remained steady. We continue to invest in building teams and capabilities to grow our differentiated and sustainable portfolio and bolster our go-to-market and product innovation capabilities. Finance costs increased by 80% to INR 644 crores, primarily due to significant increase in benchmark rates globally. Within the finance cost, the interest expense grew to INR 535 crores this quarter versus INR 284 crores in Q2 of last year.

The increase in benchmark rates by almost 400 to 800 basis points across different geographies over the same period last year, attributed to the sharp increase in interest costs. Overall, despite the increase in finance costs, hedging costs and FX impact, the strong growth in operating profitability, coupled with lower tax rates helped us to deliver robust net profit of 28% at INR 813 crores.

Moving on to H1 results performance. Consolidated revenue grew north of 20% to INR 23,300 crores, improved product realizations, which were higher by 20% and favorable Forex rates helped led to this growth. Volumes are flattish in H1, as our emphasis on quality growth meant that we had to forgo certain orders of low-margin products with extended credit terms. Having said that, we are confident of delivering healthy volume growth in the second half of the year, led by the strong demand outlook.

On the operating-profitability front, we delivered EBITDA growth of over 30%, with margins expanding by 140 basis points to 21.9%; improved realization and efficient cost management aided us in delivering a better margin profile despite various external factors. Effective tax rate for the first half of the year stood at 12.2%, and we shall remain within the guided range of 15% to 18% for the full year, as mentioned earlier.

On the whole, our net profit during the first half grew robustly by 29% to INR 1,690 crores, despite higher interest costs and hedging costs. As regards to working capital, as you are well aware, due to seasonality of our business, the working capital increases through the year and decreases substantially in the last quarter. Ending H1 with higher working capital, especially the inventory levels, which were primarily higher because of the following reasons: 1) we had robust sales in H1 and a strong demand outlook for H2; 2) the uncertainties in supply chain and logistics; and 3) our decision to sell closer to the season and thereby offering lower credit terms on sales to improve the receivable days.

As a result of these factors, we have seen an increase in working capital of $962 million, in INR terms, about INR 8,495 crores in the working capital versus the beginning of the year. However, against this increase, the net-debt adjusted for buyback and dividends, which are money given to the shareholders by end of H1 was $734 million, in INR terms, INR 7,500 crores, implying a cash generation from operations of $228 million in H1.

Going into H2, we typically have seen 75% to 80% of cash conversion of the increase in working capital, which happens in H1, which should translate into cash flow of $750 million to $800 million, roughly about INR 6,100 crores to INR 6,500 crores in H2. Further, in addition to the reduction in working capital, we received $75 million, approximately INR 600 crores in October on account of settlement of our insurance claim in Chile and South Africa.

Taking these two factors, the release of working capital and the insurance claim plus the incremental profits of H2, will lead us to deliver the reduction of $400 million in net debt, as we

had guided at the beginning of the year. Moreover, the net fund inflow of $260 million from the recently announced restructuring of business should facilitate a further debt reduction, taking the total debt reduction for the year to $650 million. It's worth noting that this stated debt reduction of $650 million is including the buyback of shares of $150 million done at the beginning of the year.

So, in summary, the net-debt position as of March '22, of around $2.5 billion, would be reduced by approximately $650 million, less about $150 million of share buybacks, so roughly about $500 million, thereby, taking the total net debt at the end of the year to approximately $2 billion. With this expected reduction in net debt, the net debt-to-EBITDA ratio would stand below 1.4-times by the end of the financial year. With that, I ask the operator to begin the Q&A session. Thank you.

Moderator: Thank you. We will now begin with the question-and-answer-session. Anyone, who wishes to ask a question may press star and one on your touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have the first question from the line of S. Ramesh from Nirmal Bang Equities. Please go ahead.

Moderator: It appears that Mr. Ramesh dropped from the queue. We move on to the next question. We now invite Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella: So just wanted to get some clarity on the net-debt guidance for the end of the year. So we are talking about $650 million of debt reduction compared to the levels of last year's March quarter, which I believe was about $2.5 billion. So is $1.85 billion, the target that we should be looking at by the end of FY'23? And also, just wanted to confirm if the guidance includes any significant increase in factoring that you might be looking forward in the second half? Or you think you can more or less get there without the substantial increase in factoring?

Anand Vora: So, Abhijit, as I mentioned, yes, $650 million would be the debt reduction, gross of buyback of that about $150 million. So roughly, we are talking about a $500 million reduction in debt from the $2.5 billion at the beginning of the year. So, we are targeting a net debt level of around $2 billion or a little bit lower than $2 billion by end of the financial year.

On your second question, which was on factoring, as we had said at the beginning of the year, we would target to remain around the $1.6 billion level, which was what we did last year. If at all, it could go up by about $50 million to $100 million more, but it will certainly be lower than the increase in sales or the growth in sales that we would have. In other words, our growth in factoring will be lower than the growth in sales, but we are trying to work towards seeing that it will be at the $1.6 billion level, which is the same level as last year.

Abhijit Akella: So, just to understand, as of September, the receivable sold was INR 6,671 crores, which is something like $800-odd million, and that will increase to about $1.6 billion by the end of the year?

Anand Vora: That's right.

Abhijit Akella: And in terms of the cost of this factoring at this point in time, I mean, do you believe it is favorable enough for you to significantly increase the factoring in the second half? How do you see that situation?

Anand Vora: Yes. So, as we had mentioned at the beginning of the year, we will be curtailing our factoring in some of the geographies where the costs are significantly higher as the benchmark rates have jumped significantly, for example, in Brazil, the benchmark rates have gone up by almost 800 basis points over that of the last year. So certainly, we will reduce our factoring in those regions, those countries, but we will compensate by increasing our factoring in countries like US or Europe, where we still get money at LIBOR plus 150 basis to 200 basis points. And this is almost equal to the cost of borrowing, which we do otherwise on working capital. So virtually, we are getting a non-recourse risk-free money at the same price that we get as of working-capital funding.

Abhijit Akella: Sure. That's helpful. And then just one last question for me before I get back in the queue. Just on the volume growth for this quarter, it was about minus 7%. I understand we've strategically decided to focus more on driving higher margin sales with better quality of credit periods and everything. But is there some apprehension that we might be giving up a little bit of market share in some of our markets?

Michael Frank: Yes. It's Mike here. I'll take the question. So no, we're still very focused on maintaining and growing our market share in all of our key geographies. Again, as we commented, we are timing our sales to channel and to customers closer to the market. And so, we are anticipating that we'll see more volume growth in the second half, but our teams are very focused on ensuring that we maintain and grow our core market share. It's one of the attributes, I think, as UPL, we've got a very strong portfolio. We're launching over 80 new products this year. So, it all augurs well to, I think where we'll end the year better from an overall market share perspective.

Moderator: Thank you. We have the next question from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: Mike, on the gross margin improvement that we got in this quarter, if you can just probably spend some more time on what the major factors driving the improvement in the gross margins? And our contribution margin and how should we look at the contribution margin improvement for the second half of the year?

Michael Frank: Yes. So, as I mentioned, the gross margin improvement was primarily really across our portfolio. But from a meaningful standpoint, it was really in our herbicide segment. And I would say it's underpinned by the strength of our supply chain and the efficiency of our supply chain relative to the market we compete against. And so we saw the opportunity to take appropriate price increases where we could. And overall, that's why we saw the incredibly strong margin improvement in Q2.

Now going into Q3, we think the trend will continue. The growth on a year-over-year basis may not be as strong in Q3 and Q4, but we anticipate we'll continue to see margin expansion in both quarters ahead of us.

Nitin Agarwal: And secondly, on the overheads, any comment on how's -- has there been any easing off on the inflationary pressure on freight and other expenses?

Michael Frank: Yes. So I'll take part of overheads and then I'll ask Raj to talk a little bit about freight and other logistic costs. So, about half of our overheads are employee costs. And so, obviously, the inflation on employee costs have run higher this year. And with inflation around the world that trend will likely continue. We're very focused on managing overall headcount numbers, managing all of our controllable SG&A where we can and so I think we're seeing strong discipline from an overall SG&A management perspective. But we will continue to see SG&A growth as we anticipate in the second half of the year.

Raj Tiwari: Yes. On logistics, actually, the prices have come down significantly. However, when we talk about the landed price in the respective countries, the currency depreciation has taken a lot of savings out of logistics. So yes, in US dollar terms, there has been a lot of lowering of cost in freights.

Nitin Agarwal: Okay. And secondly, Anand, on the Forex losses that we sort of report below the EBITDA line, what are the nature of these Forex losses? These are all realized losses or these are notional losses?

Anand Vora: Well, part would be the cost of taking the forward cover and large part would be the mark-to-market.

Nitin Agarwal: Okay. And is there any particular currency against which these, because the count of losses is pretty high this quarter.

Anand Vora: We did see some impact coming because of the euro depreciating, the Japanese yen depreciating. There was an additional cost because, as you know, we hedge our advanced orders that we get. So there's the cost of hedging there. But yes, largely, I think, otherwise, the Brazilian Real was okay, we did get some impact there also. But as I said, some of these are mark-to-market, so they will be reversals as we move into the following quarters.

Moderator: Thank you. We have the next question from the line of Jay Shah from Capital PMS. Please go ahead.

Jay Shah: Congratulations for a great set of numbers. I just wanted to understand that since there is a lot of China-Plus-One tailwinds that are happening across the world. I just want to ask management in terms of derisking the supply chain. How are we trying to derisk our sales from these geographical uncertainties? Are you focusing more on procuring from, say, countries like India, where you can have at least a visibility of the supply chain better so that we can fulfill the contract? Are we doing something to derisk the supply chain from our end?

Jai Shroff: Yes. So UPL is probably the most backward-integrated player globally in our sector. And over the years, that has been a continuous process. We also have built a very strong supply network in India over the last four or five years and are one of the largest buyers from the chemicals manufacturing companies in India.

So this is a constant process. And if you look at it among our major global peers, we would be the least dependent on China. So, while we are not completely independent, we don't want to be completely independent. China has a strong manufacturing platform.

So, while we keep reducing our dependence as a single source out of China, we are constantly building capacity in India and also working with Chinese companies to add capacity and specific partnerships. We think we are pretty balanced as far as our supply is concerned. But as UPL continues to grow, we keep adding capacity and a lot of our Capex does go towards backward integration on key raw materials for our industry.

Not only for the AgTech area, our specialty chemicals platform goes a lot into other sectors, like pharma and other sectors, which are also growing in India a lot. So that's a constant effort from our side.

Jay Shah: Okay. Got it. So just following up on that, so when you say that you're buying a lot from these Indian companies and you have a good base in India, how does the chemical synergy and the technology works? Does the R&D department of UPL work with these vendors? Or these are all generic in nature and the technology is available to everyone? Like when you say specialty, so then how does the specialty technology -- how do the vendors get access to, like do we have a...

Jai Shroff: Very close. The vendor development activity doesn't happen in one meeting. It is years of working. So, we have years of partnership. So UPL is one of the largest buyers of specialty chemicals in India. And in fact, if you look at the top 10 specialty chemical companies, UPL would be the one of their leading customers.

So, it's an ongoing, very close relationship with them, where we work on technology improvement. We also look at their carbon negation, help them with their waste treatment, energy

reduction. We work with them across the platform to help them to be more competitive and share the benefits of all the efficiency and technology development.

Moderator: Thank you. We have the next question from the line of Visnu Kumar from Spark Capital.

Visnu Kumar: My first question is on the price increases. In the fourth quarter of double-digit numbers what you've been doing? Have we reached an end to the price increases? Or is there some more still pending?

Michael Frank: Well, yes, so if you look at it, firstly, if you step back and look at the broad Ag marketplace. Because of a number of reasons, including lots of weather challenges in North America and Central Europe this past year, with heat and lack of rains and then too much moisture in parts of Southeast Asia and other regions as well as the conflict in Ukraine, I mean, the anticipation right now is ending stocks for key grains are going to be near record lows, which is why we're seeing very strong prices for grains and food products.

And we believe that, that's going to continue. It's going to take more than one normal crop to rebalance those ending stocks. And so grain prices are high. Feedstocks to produce ag-chem products has also been high. And so that's led to the inflationary nature of our business and our ability to price into the marketplace. Whether we're at the peak of the price, it all depends on how things evolve from here. I would say, right now, we believe we're in a stable environment where most of our feedstocks have stabilized from a cost standpoint over the last several months.

Again, I think from a pricing perspective, if you do it just on a year-over-year basis, we can anticipate price increase for sure in Q3 over last year's Q3, and again, we would expect it in Q4. Now whether there is additional upside in pricing, I think that will depend on what happens to grain prices. And also what happens to feedstocks from this point forward.

Visnu Kumar: Okay. At least on feedstocks, has the softness that already started? And would that mean we will keep it with us as margin or we will start passing it on to the customers, let's say, if the market probably becomes a little soft?

Raj Tiwari: This is Raj here. Of course, there is some softening of prices in the feedstock. But actually, when we talk about the prices on the ground in the respective countries, this softening is not reflecting, because of the currency depreciation largely except for US. .

But reality is on- the ground, it has not been able to convert and therefore, the customer doesn't get the benefit of a lower cost because of the depreciation in the currency. So that's one and also the interest cost, the cost of capital has actually gone up and that is also impacting. So that's where the status is.

Visnu Kumar: Got it, sir. In terms of the volume decline of 7%, is this more to do with Brazil, where as you are highlighting that we are taking some corrective steps? Or is it across the -- all the regions? If you could just give some -- a bit more understanding on this minus 7% decline?

Michael Frank: Yes. So it's not across all regions. It's primarily in Latin America and even more specifically, it's in Brazil. Again, where we're timing the movement of our products into the channel, close to the use season. Again, we'll see the impact of that benefit in Q3. If you look outside of the Americas, our volume growth was in the mid-single-digit range. And so we did see volume growth outside of the Americas, but in the Americas, that drove the minus 7% across our portfolio.

Visnu Kumar: Got it. And one final question on the working capital again. My question on the pricing was essentially trying to ask that a lot of the working capital demand this year has been, because of the price growth and we have to fund for that. So, if we are more or less done say, in terms of price increases and let's say if the current commodity prices sustain, then a lot of working capital could get released next year and you may not require so much in terms of the working capital. Is that right understanding for next year?

Also, additional question on this. Any incremental changes that we have done in Brazil, like what we understand on this volume, low margin, high working capital days you're giving off. Anything that we can anticipate as a positive surprise next year or anything that is currently ongoing in terms of reducing the working capital load that we are currently taking in this region?

Anand Vora: Visnu, I mean, I thought this results itself a positive surprise with the margins that we have made. But having said that, looking into the future, I think we are very conscious. The entire leadership team, business, finance, everybody is conscious that this sort of working capital is unsustainable, and we are taking several measures to reduce the working capital.

Like you saw that you have seen a bit of inventory buildup, which has happened in by end H1. But that's basically because we are going to supply closer to the usage. We have shared with you our joint venture with Bunge, where that's another step where we will see a reduction in working capital. So, several measures are being taken and in almost all regions to see how we can bring down our working capital.

So while price, of course, if it comes down, there will be a less, but then I guess it would be also the volume will continue to grow as we grow our business. So there are measures being taken and we are working towards seeing how we can bring down our overall working capital as we move forward.

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

Abhiram Iyer: I just wanted a bit of clarification on the net-debt reduction. You mentioned that basically, the target is US$ 650 million. And whereas from the perspective of factoring, this is going to increase from the current levels of US$ 800 million to around US$ 1.6 billion. So I mean, I'm just trying to figure it out from, say, the rating agencies perspective, which includes factoring assets one way or the other. I know it's non-recoursed, but would this mean that effectively the combined level should actually be higher than what they are currently?

Anand Vora: What do you mean combined levels will be higher? The factoring on a year-to-year basis will be the same. Last year, we were at US$ 1.6 billion, and this year also will be around the same levels. So, there will be no incremental factoring if one has to look at from March to March

Abhiram Iyer: Got it. And there will be no currency effects there because of the shift in geographical segments for factoring that you mentioned?

Anand Vora: No. We look at it in dollar terms only.

Moderator: Thank you. We have the next question from the line of Rohan Gupta from Nuvama Wealth Management.

Rohan Gupta: Sir, first question is on our volume decline, especially in current quarter and we have seen almost flat volume growth in the first half while the entire growth in top line has been driven by the price increase. But despite that, we have been able to improve the EBITDA margin by almost 140 basis points that, if my understanding is right, that is mainly driven by the improved product mix and when we see the prices stabilizing or declining, we see higher margin growth and EBITDA margins will be much higher than the current level?

Michael Frank: Yes. Rohan, it's Mike here. So yes, your understanding is right. I mean obviously, on a first-half basis, our volumes are about flat maybe down 1% and so the growth in our business and the growth in EBITDA is attributed to the price increases. I think on the second part of your question with regard to, if we see raw material decrease in cost, will that have a positive margin impact on our business?

Like again, I think it depends on the timing, and it depends on the product. Some products which are extremely competitive and are priced on a cost-plus basis, today and in the future, if the costs come down, then prices will come down and percent margins will be maintained, but absolute margin will kind of fall in line. As we sell more and more of our product portfolio in differentiated and sustainable products, those products are less likely to be cost-plus and they're really priced on the value that they generate and so they'll be less price-sensitive.

So it will be a bit of a mixed bag. But I would say if feedstocks come down or raw material costs come down, I wouldn't anticipate that would be a long-term opportunity for margin expansion.

Maybe in the short term, as the market adjusts, there could be some benefit, but not in the mid- to longer term.

Rohan Gupta: Okay. Got it. Sir, secondly, in terms of our guidance. So once again, flat volume growth in first half, while you have mentioned that the company is doing the rationalization of product basket and focusing more on the upstream product and high value-added product. So does it mean that when we started giving the guidance for the -- I mean, in Q1, we were looking at 7% to 8% kind of volume growth.

However, the pricing growth has been separate and that has been driving top-line growth. So do we still look at the full year volume growth in the range of 7% to 8%? Or do you see that the rationalization of product basket will continue in second half as well?

Michael Frank: Yes. No, good question. Look, I think on this full year, we would anticipate volume growth in the mid-single digits. So that would be more where I would expect to see volume. Again, if you look at the first half, there's really only one country where we've seen volume decline, which is in Brazil.

And again, we believe that a lot of that is going to be made up in the second half. So yes, I think don't misread into the volume story, you really need to look at the whole-year picture. Again, I think from a total-market perspective globally, if you think about the product that gets applied on the ground, which is what really matters we're likely going to see maybe 3% to 4% increase in the total global marketplace from a volume perspective, at most. Again, there's been many markets that got impacted because of the weather conditions. And so it may not even be that high overall. And so, we would anticipate to have volume growth in excess of the global market.

Rohan Gupta: So, we can safely expect that full year volume growth should be mid-single digit irrespective of the Brazil going down?

Michael Frank: Yes. So again, we would expect to see overall volume growth across our entire year in the mid-single-digit range.

Rohan Gupta: Got it. The third question is on this debt level and cash level. So, post the realignment which you have just mentioned, I mean, across the various business verticals which you have created now, how the debt and cash will be positioned, sir? And the net-debt level which you are talking about, I understand you are talking about the UPL level. So how the debt level and cash will be distributed among entities which we will be creating now?

Anand Vora: We are looking at an overall group at this stage, and we are committing based on the overall group level. If you see while we have just segregated, UPL Corp was always a separate company, where 22% stake was with ADIA and TPG, which as you know in the restructuring, we have now pushed it down to UPL Cayman. Advanta and was well a separate division, but not separate

entity and UPL SAS, which is the sustainable agri solution is our India business was again a division. But again, we will overall look at the group level and our commitment to rating agencies is at the overall group level.

Rohan Gupta: So Advanta and UPL SAS will be having no debt and no cash?

Anand Vora: They will have some debt, some cash, but this all would be consolidated at UPL Limited level because, as you know, we will continue to own 91% of UPL SAS and 86.7% of Advanta Enterprises.

Rohan Gupta: So, just one last question from my side, and I'll come back in queue. There's an acquisition of Kudos Chemie, the INR 237 crores kind of spend. A little bit more on this, what kind of revenue can this acquisition generate and is it part of the specialty chemical side of the business. So, do we see that in your restructuring concall, you have mentioned that Specialty Chemicals business also will get a thrust from the management?

So, it is something in line with that and this acquisition of Kudos Chemie, which is primarily in, I think that in specialty chemicals beverages and pharma ingredients, not related to our agrochemical intermediate business. So are we looking in that direction that a lot of more investment can happen in these kind of opportunities?

Jai Shroff: Yes. so exactly we look at our manufacturing platform, part of UPL, it's about a $2 billion manufacturing platform, which caters to crop protection and specialty chemicals. Over the last two or three years, we've been investing in building the specialty chemical platform, which has many uses ranging from as intermediate for our traditional crop protection business, but also in the other areas for pharma and other areas, for which we have seen a huge demand for intermediates.

Kudos is a very small acquisition, we bought it for maybe $0.15 to the dollar. It's a huge infrastructure with a 100-acre site in the industrial park. So, today, to set up a new plant costs a lot of money. So, we got already made site and we will in about a year's time, we will see a good amount of production and new products coming out of that site

And this manufacturing and specialty chemicals platform, is already an INR 14,000 crores top-line business and we believe that will continue to grow. So, when you look at the segment valuations, then you can realize how big that business is, like we talked about Advanta and the UPL SAS.

So, we are unlocking value for shareholders and looking at different ways to make sure that the market understands the value of some of the assets within some of the very exciting businesses which exist within the UPL Group.

Rohan Gupta: And the revenue potential of this investment of INR 237 crores,

Jai Shroff: I mean, right now, we are not giving out any numbers.

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

Aditya Jhawar: My first question is, Anand, is there a scope to increase the proportion of sustainability loan to lower the interest cost? Or are you evaluating some refinancing options to lower the interest cost?

Anand Vora: We, in fact, just concluded about 2 weeks back, a $750 million loan at about 20 to 25 basis points lower than what was the cost of acquisition loan. But the challenge is not in terms of our spreads keep coming down, the issue is really the speed at which the benchmark rates that so for or LIBOR rates have gone up. And that's what has created this sort of increase. The good part is this is applicable to everyone. And therefore, you will see everybody increasing the prices in order to recover the extra cost of borrowing.

Aditya Jhawar: So as of March end, sustainability loan was about 42% of the total loan. What is the number right now?

Anand Vora: So, the US$750 Mn loan that we took wasn't the sustainability loan, but we took a plain vanilla loan with again a 5-year maturity, with a part of it maturing in 3 years just to reduce our cost of borrowing. But we borrowed this new loan facility at about LIBOR plus 145 for 5-year and the 3-year, we got it at LIBOR plus 125, whereas the acquisition loan was at about LIBOR plus 165-170 basis points.

Aditya Jhawar: Okay. So out of the total debt, what, so 30% is a fixed rate. Is that right?

Anand Vora: The bonds are at fixed rates.

Aditya Jhawar: Fixed rates. Okay. Now the second question is on the volume decline of 7%. So, as Mike mentioned that on a full year basis, we might see a mid-single-digit volume growth and we are talking about already higher teens price increase. So is there a possibility of raising the revenue guidance upwards? Currently, we are at 12% to 15%. But factoring in these two things, the price increase and a mid-single-digit volume growth. And so far, we have delivered over 22% kind of a growth?

Anand Vora: I mean it's simple math, but generally, we refrain from changing the guidance. As you know, we did revise our guidance this time at the end of first quarter, and I think we would like to retain it at the same level.

Moderator: Thank you. We have the next question from the line of Swadha from Ace Lansdowne. Please go ahead.

Swadha: Congratulations on a good set of numbers. I just have one question regarding your debt reduction. So I just want to know what exactly would be the plan of the company going forward to curtail the debt? Would it just be on the reducing the factoring? Or is there any other thing?

Anand Vora: There are a lot of initiatives that we have taken, as I was saying earlier to answering one of the questions. What we are doing is we are reducing the credit terms, which we offer to our customers, One. Two, we are trying to sell closer to the season or the time of consumption, which thereby also helps us to reduce the cost, reduce the credit terms, but it also helps the distributor as he has to invest less as far as his working capital is concerned. So it's a win-win for both. Besides this, we are, of course, seeing how we can bring down our cost, our SG&A expenses.

And we have also taken up internally a project on improving our forecasting, what we call forecast accuracy, which should help us to plan our inventories better. So, these are some of the initiatives that we have taken. I did also mention that in Brazil, we have a joint venture now with Origeo, where whatever we sell to that joint venture company, we get paid within 180 days, which while in absolute, it does sounds like it's a big number, but otherwise, we have been selling at about 200, 220 plus days.

Because in Brazil, we generally sell on crop terms, which means that depending upon the crops' life cycle, we have to offer that level of credit days to the customer. So, several of these initiatives have been taken both in most of our regions, and therefore, this should help us to bring down our working capital.

Moderator: Thank you. We have the next question from the line of Ramesh from Nirmal Bang Equities.

S. Ramesh: The first question is as Mike mentioned in his opening remarks about the product-mix improvement and portfolio rationalization. So, is it happening in some specific product segments? And secondly, you mentioned about the improved performance in LATAM in terms of EBITDA margins being higher, so if you can put it in the context of what was the differential in the Latam margin compared to your blended margin, and what is the improvement in there, it will be helpful?

Michael Frank: Yes. So as I mentioned, from a product-mix standpoint, we really geared our supply chain and our sales organization to really focus on higher-margin products, and this will be an ongoing effort. And so I think it's part of the discipline that we need in our business, and so we're starting to see some of the green shoots based on that focus. And so I would say that, that's going to continue. I mean we aren't exiting complete segments or specific AIs, and so we're just really looking across our portfolio, where can we rationalize SKUs, where can we combine formulations and how can you become more efficient to really serve our customers.

Because at the end of the day, our objective is to provide whole acre solutions to our customers, and so we really like our broad portfolio strategy. So we're going to continue to have that strategy, including with Biosolutions, but we will gear things more towards higher-margin products.

In terms of margins, we don't provide that on a region-by-region basis. I would say, additionally, the LATAM region has had lower margins, including this year, on average, they would be a bit lower, but we saw a significant improvement. In fact, the biggest improvement we saw across our global business this past quarter was the margin performance from our Latin America region. So, it's not quite at the global average, but it's getting closer, which is good.

S. Ramesh: So, the second part is if you're looking at the global average volume growth of 3% to 4%, you said UPL will possibly be able to grow faster. So how would you do that? Is there an increase in market share? Or are you creating new segments? Can you explain that?

Michael Frank: Yes. So I mean it's really focused on penetrating with the products that we have across our portfolio as well as the 80 new product launches that we're bringing to the marketplace this year. And so, some of the products, just to give you a couple of examples, we have a new three-way fungicide, Evolution in Brazil, that is going to be a significant product for us. We're going to gain significant share in that entire marketplace this year and I think we have a multiyear opportunity to gain share with Evolution.

Likewise, we're just now entering, for the first time, the soybean herbicide market in the US with a really good two-way herbicide that's called Preview. That's also patented. And again, that's a whole new segment for us, where we will participate in for the first time. And I think based on product performance, that will be a very strong product, starting with Q4 sales as it gets positioned for next spring in the US.

The third and the final product, I'll highlight is a new bionematicide called Nemasect. This is from our collaboration with Christian Hansen. We just actually, in the last two weeks, got regulatory approval in Brazil for this product, and we're expecting it shortly in North America. So, these are three examples of segments we're entering in a big way with some new products and technologies that will help us grow market share. In addition, there's our traditional markets where we are expanding capacity and growing across portfolio specially quite fast in certain products such as glufosinate, clethodim and s-metolachlor. So, these are some of our largest AIs where we continue to debottleneck our plants, invest in capacity and continue to grow our market share.

S. Ramesh: Okay. So is it possible to throw some light on the target market size for Evolution and the new soybean herbicide?

Michael Frank: Well, yes, so the soybean rust market is one of the largest markets in Brazil. And we believe with our product Evolution, we've got the premier product in the marketplace now. So yes, we're not

breaking out kind of product market shares by country, but this will be one of our significant growth drivers throughout the rest of this year and into the next couple of years.

S. Ramesh: And then one last thing that you mentioned introducing new products and weeding out some old products. FMC typically talks about 3% attrition and then additional products on top of that. So you have to look at the 20%, 21% innovation rate, what is the kind of attrition in all products? And what are the kind of growth in new products this year based on your current number?

Michael Frank: Yes. It all depends on the market segment. I would say, based on the product portfolio that we're introducing this year, it's probably around 70% of our new product sales would be incremental sales. And so again, taking the Evolution as an example, that will cannibalize some of our older products in the marketplace, whereas a product like Preview is a brand-new segment for us. And so, on average, I would say, with our current product launches this year, about 70% of their sales are incremental sales. So, about a 30% cannibalization rate.

Moderator: That was the last question. I now hand it over to Mr. Anand Vora for closing comments.

Anand Vora: Thank you, everyone, for joining us today on this quarter -- the results quarter and first half results call. If you have any follow-up questions, please reach out to Radhika Arora or Mandar Kapse or you can also reach out to me, and we'll be happy to take your questions and provide you with data points and information you require. Thanks once again, on behalf of all of us here at UPL for joining us on this call.

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