"UPL Limited Q2 FY2024 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to UPL Limited Q2 FY2024 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 call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

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

Radhika Arora: Thank you. Good day, everyone. Thanks for joining us today for the Results for the Quarter and Half-Year Ended 30th September 2023. The "Presentation, Press Release and the Financial Statements" has been made available on the website and we take as having read the Safe Harbor statement.

From the Management Team, we have with us today, Vice Chairman -- Rajendra Darak; CEO of Global Crop Protection business -- Mike Frank; CFO -- Anand Vora; Chief Supply Chain Officer -- Raj Tiwari; Chief Commercial Officer -- Farokh Hilloo; Mr. Bhupen Dubey and Ashish Dhobal, the CEOs of our Advanta business and UPL SAS respectively, and other members of the leadership team.

With that, let me now hand it over to Anand.

Anand Vora: Thank you, Radhika. A very warm welcome to all of you.

I'll begin by discussing the "Key Financial Highlights" for the 2nd Quarter and First Half ended 30th September, followed by an update on working capital and debt".

The global agrochemicals market continues to navigate through a difficult phase impacted by the high channel inventories globally as well as the elevated pricing pressure. In particular, the destocking exercise had a significant impact in the US and Brazil, both being among our larger markets. Our 2nd Quarter performance too was impacted by these market-wide headwinds and erratic weather in certain markets such as India and some other parts of the Asia Pacific. As a consequence of these factors, our revenue for the 2nd Quarter was down by 19%, a large part of the decline was due to lower realization. Having said that, we did see positive volume growth in our international crop protection business, which is quite encouraging given the current market scenario.

The volume growth in the international business was driven by the good performance of our high margin differentiated and sustainable portfolio, which grew 9% year-on-year, led by strong volumes which were up by 17%. This is quite noteworthy amidst the current industry downturn.

The share of our differentiated and sustainable portfolio now represents 38% of the crop protection revenue at the group level versus 30% in the previous year. At the consolidated level, contribution margins declined by 265 basis points to 39.9% in Q2. This compression in margins was due to liquidation of high-cost inventory, higher than usual sales return and rebates to support the channel partners.

Considering the above factors as transitory, if one were to exclude its impact, contribution margin for H1 would have been higher by approximately 300 basis points versus last year. Some of the above transitory factors are expected to continue in H2 as well.

Led by the organization wide cost reduction initiatives, our fixed overheads for Q2 came down by 3% versus last year. This reduction was achieved despite the FX translation impact of rupee depreciation against the dollar of 3%.

As informed in the last quarter, our cost reduction initiative of $100 million to be delivered over the next two years is currently under execution and we are on track to realize the cost saving of US$50 million for this year. Bulk of the saving for this year will be realized in H2.

On the operating profitability front, we reported an EBITDA of INR 1,573 crores in Q2, representing a decline of 43% for that of the previous year, largely on account of double-digit drop in contribution profits. However, adjusting for the transitory factors impacting the contribution margin, the drop in EBITDA for Q2 and H1 would have been significantly lower.

Before we move on to the items below the EBITDA, I would like to briefly touch upon the performance of the two of our platforms UPL SAS, the India Crop Protection platform and Advanta Enterprises, the Global Seeds platform.

Advanta continued to see healthy growth in Q2 as revenues grew by 10% to INR1,070 crores and the contribution profit grew by 13% over that of the last year. On the whole for H1, Advanta delivered a strong performance with 17% growth in revenue and 25% growth in contribution profit and EBITDA. Looking ahead, Advanta remains on track to achieve its FY24 guidance.

Performance of the India Crop protection business, UPL SAS, in Q2 was impacted by high channel inventory, erratic monsoon in August and September months and higher than usual sales return and also due to the lower acreages for key crops such as cotton and pulses, which form a large part of the UPL SAS revenue. Given the above headwinds, revenue contracted by 36% in Q2 versus last year, while EBITDA declined by 88%. However, led by new launches, a strong product portfolio for the rabi crops and lower sales return, the performance of UPL SAS in H2 will be much better than that of H1.

Coming now to the financial cost, net finance costs rose by 18% due to significant increase in interest costs on borrowings. This increase in borrowing costs was mainly driven by the benchmark rates rising by 400 basis points year-on-year. The benchmark reference rate here is

SOFR, which as you all know is the replacement to the LIBOR rate. The average cost of borrowing for the quarter stood at approximately 7% per annum.

FX loss for the quarter for the quarter was INR 229 crores, largely in line with Q1. The FX loss is mainly attributable to the hedging costs of balance sheet exposure in Brazil and the significant currency devaluation in certain countries such as Argentina, Russia and Turkey, where the cost of hedge was significantly higher, making it unviable to hedge these currencies.

Losses from associates and JV rose by approximately INR 175 crores versus that of last year. This was primarily on account of the significant decline in profitability at Sinagro, one of our associate companies in Brazil given the severe market downturn in this region. The exceptional costs for the quarter largely included one-time severance payment, which were required to be paid as per regulations in certain countries.

Overall, the decline in EBITDA combined with higher finance costs, losses from the associates and other sister concerns and exceptional items resulted in a net loss after minority interest of INR189 crores for the quarter and INR 23 crores for H1.

On the working capital front, the working capital days increased by 25 days year-on-year to 149 days. The increase is primarily on account of the sharp drop in payables and reduction in factoring. Payable days were much lower than last year due to the reduced manufacturing activity in H1.

Overall, we are expecting the working capital cycle to normalize in H2, ending the year with a working capital of around 65 days, which is in line with that of the previous year.

To give an update, our net debt increased by $197 million versus last year due to decline in factoring, which was lower by $86 million and also due to increase in working capital given the lower payables. The payables were down by $526 million versus the same time last year. Going forward, as we look ahead to the second half of the year, we are confident of delivering progressively much improved profitability in H2. Given the adverse transitory impact of the inventory repricing adjustments in H1 and the expected impact in H2, the guidance for the full year is now being revised to flattish revenue growth over that of the previous year and EBITDA is expected to be in the range of flat to (-5%) versus that of the previous year.

On the balance sheet front, considering the revenue and the EBITDA impact, we are taking initiatives to improve the cash flow, which will allow us to reduce our gross debt by $500 million by end of the year. Some of the initiatives that we propose to take to reduce the gross debt are, slowing down on our capex, which is expected to be lower by $50 million versus that of the previous year, using the existing cash reserves of $200 million to pay down the gross debt, and the improved cash generation from operations in H2 should help us to reduce the gross debt by about $500 million by the end of this financial year.

With that, I would like to hand over the call to Mike, who will take us through the performance of the International Crop Protection business in greater detail. Over to you, Mike.

Mike Frank: Thank you, Anand and hello, everyone.

As highlighted by Anand, we've been facing a tough market environment over the last few quarters. While agchem demand at farm gate remains strong, the global agrochemicals industry continues to go through a challenging phase. Specifically, there's been a significant price decline versus last year for most post patent products and distributor destocking has occurred in virtually every geography, especially materially in Brazil, North America, and Europe. Despite this, I'm pleased to highlight that we've increased our market share with overall higher Q2 volumes this year, demonstrating our portfolio strength and our commercial strategy.

Moving to Results, our 2nd Quarter revenue and margins were negatively impacted by price declines in every region, higher cost inventory liquidation as compared to our current replacement costs as well as sales returns and rebates that were used to support our channel partners.

Among key products, herbicides such as glufosinate, glyphosate, clethodim and S-metolachlor especially in North America and Brazil, accounted for 70% of our total quarterly revenue decline.

Among other regions, Europe continued to face challenges due to channel inventory and product bans. Overall, in Q2, our revenue dropped by about 20% while contribution was down approximately 30% with margin compression of 470 basis points. The EBITDA for the same period declined 56% year-on-year. However, if you adjust for one-time impacts as highlighted earlier, our contribution margin is up about 100 basis points versus Q2 of last year which augurs well as we refresh our inventory, and the market starts to normalize.

Further, I'm happy to share that we have grown our differentiated and sustainable segment by 9% through strong volume increase. The growth has come via newer products such as Evolution and Feroce. This has also resulted in improved product mix from 27% differentiated and sustainable revenue last year to 36% in this quarter.

Additionally, our NPP Biosolutions has grown by 12% in U.S. dollar terms through higher volumes along with improved margins on quarter-over-quarter basis and we expect the strong NPP Biosolutions performance to continue for the rest of the year.

Let us now look at the performance of our regions in Q2. In Latin America, our revenue was down by 20% due to significant price decline. Brazil was especially affected due to market degrowth with high channel inventory related challenges specifically in herbicides. Key AIs impacted were glyphosate, clethodim and glufosinate. However, outside of Brazil, the rest of Latin America had volume-based growth across our portfolios.

In North America, herbicides continue to face challenges due to a sharp decline in AI prices along with channel destocking and tactical purchases by distributors. Herbicides including glufosinate, metolachlor and clethodim accounted for about 75% of total revenue decline, driven by lower volumes as well as pricing pressure.

We expect the channel inventory to normalize in the US by Mid-Calendar Year 2024.

In Europe, revenues declined by 8% in Q2 versus last year due to continued channel inventory destocking and product bans. Among major portfolios, herbicides and insecticides were most impacted. That said, we expect upsides in NPP Biosolutions and in herbicide volumes in H2 leading to an overall recovery in the Europe region.

The rest of the world was marginally up by about 2% in Q2, led by very strong volume growth across this rest of the world region, specifically in parts of Asia and Africa.

Moving forward, we anticipate Q3 to remain weaker than last year due to continued channel destocking, specifically in Brazil and the price reset in the post patent segment across geographies.

Overall, we expect channel inventory normalization as we come through the second half of the year.

On the pricing front, most post patent AI seem to have bottomed out in Q2 and we expect them to stabilize at or slightly above this level for the remainder of the year. Overall, we are executing well in this challenging market and making changes in our operating model and cost structure that will further improve our business quality going forward.

Finally, we are confident of an improved second-half performance versus the first half of the year as key regions such as North America, Latin America and Europe enter into their major cropping seasons. As mentioned earlier, the high channel inventory is expected to subside in the next six to eight months with farm gate demand remaining strong throughout this year.

And as part of our overhead reduction actions, we are on track to reduce approximately $100 million over the next two years with major savings this year starting to accelerate from October. We are confident of delivering at least 50% of total savings this year. With the above actions and stronger volumes, we foresee our EBITDA growing in the second half of the financial year.

With this, we'll now open it up for our question-and-answer session.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Siddharth Gadekar from Equirus. Please go ahead.

Siddharth Gadekar: My first question was on the glufosinate side. So, how should we look at the North America market given that batches have launched glufosinate in terms of incremental realization growth and volume? And secondly, how do we plan to utilize our assets given the kind of overcapacity that is being created in glufosinate because of L-glufosinate.

Mike Frank: As I mentioned in my comments, glufosinate has been one of the challenging AIs this year as the prices come down significantly in this segment. At the same time though, our costs have also come down. So, the way I think about this from a FY24 standpoint is this is really a year where we're right sizing the amount of glufosinate that we're producing, we've adjusted the price in the marketplace in North America, we've taken our price down significantly to be very competitive in the marketplace. And so, we expect that overall, with these lower prices of glufosinate that we will likely see some level of volume increase just from a price elasticity standpoint. So, we are set to take advantage of that as we enter into this next season. So, I think the glufosinate business will be challenged throughout this year, but as we get into next year, I would expect it to improve. From an L-glufosinate standpoint, we don't expect outside of China for there to be much L-glufosinate this year. In North America, this is still going to be a straight glufosinate business that we're participating in.

Siddharth Gadekar: Secondly, in terms of our net debt, how should we look at our net debt numbers now going into the fourth quarter or is it too early to give any guidance on the net day numbers?

Anand Vora: As I mentioned in my commentary, we are looking at reducing at a gross level of $500 million as compared to 31st March 2023 levels. So largely as I mentioned, this should come out of the improved H2 performance because whatever we have seen the buildup of debt is in order to finance our working capital in H1 as well as to partly fund some of the small losses, we expect much better performance in H2, so there should be better EBITDA realization in H2. At the same time, we are looking at as we mentioned given the guidance our sales to be flattish by the end of the year and if we are maintaining our number of days of working capital at 65 days, we don't see any incremental funds required to fund working capital. With the overall cost base coming down, we expect some release of working capital also. That's the second aspect. Third is we are looking at various other items of working capital, largely the loans and advances and other aspects to see how we can further augment our cash flows. So, these are some of the components of cash items which we are looking at, which would help to bring down the gross debt by about $500 million by the end of this financial year.

Siddharth Gadekar: Anand, our factoring will be similar to last year.

Anand Vora: As of now, we have guided for the same at about $1.4 billion levels, but we are evaluating various options. If we'll reduce factoring, then probably to that extent there could be a replacement by short term borrowings. But let's for a moment assume factoring to be at the same level as $1.4 billion.

Moderator: The next question is from the line of Saurabh Jain from HSBC. Please go ahead.

Saurabh Jain: Given that we have revised down our revenue and EBITDA guidance, I think it implies almost like an 18% YoY growth in the second half on the revenues and also almost like 28% to 30% growth on the EBITDA. Earlier you alluded to the fact that North America, Europe, LATAM, the high inventory is likely to subside only over the next six to eight months, but on a very gradual basis. And the second half is a more of LATAM and North American, Europe, heavy seasons. So, can you help us to understand the 18% revenue growth, does it look like more ambitious and this kind of growth would already be visible in the third quarter or is it more like a fourth quarter loaded growth?

Mike Frank: As I mentioned earlier, we are expecting volume growth in Q3 but overall, on a QoQ basis, we still don't expect Q3 to exceed Q3 of last year. Now, when we get to Q4, obviously we're starting the new calendar year and I think a lot of the destocking is going to be behind us and in Europe and Latin America and US distributors are going to be stocking up for the upcoming season. And so, we would expect very strong volume growth to come back in our Q4. We don't expect prices to strengthen, but we also expect to see strong performance out of our differentiated and sustainable portfolio. And so, all of that into the mix would mean that we are expecting both revenue growth and EBITDA growth in our Q4 over the Q4 of last year.

Saurabh Jain: This also implies EBITDA margins of more than 21% in H2. Reaching those kinds of margins, do you see that kind of possibility because these are more like some sort of normalized margins that we have done historically also? So, with these kinds of margins I understand you have the cost saving plan, but it does not add up too much on the profitability. So, can you explain some sort of drivers to this too much of improved performance on the profitability as well that can be helpful?

Mike Frank: I think there's two things to take into consideration on that. Firstly, the cost reduction program will deliver in the range of $50 million of SG&A savings and so that will have a positive impact. And then secondly, as we get into Q4 in particular, we're also going to be selling fresher inventory. As the price reset happened out of China, for the first two quarters of this year and partly in Q3, we're still liquidating higher cost inventory relative to our current replacement cost. And so, when we get into Q4, we're also going to see the benefit of that lower cost inventory and that will help expand our margins as well. So yes, all of those taken into account we would expect to see a strong EBITDA margin growth in Q4 as well.

Saurabh Jain: A related question I have with this is the high-cost inventory liquidation that is largely done or are we still carrying some high-cost inventory with us on the books?

Mike Frank: Yes, it's not completely behind us. We're still liquidating some of that high-cost inventory. You know our feedstock really started to come down in the first quarter of the year. But we'll continue to be liquidating our inventory. I mean, if you think back to when we started the year, with just around 100 days of inventory, so a lot of that has been liquidated, but we're going to continue to liquidate it as we go through Q3 in particular.

Moderator: The next question is from the line of Damodaran from Acuitas Capital. Please go ahead.

Damodaran: On your credit rating side, so one of the rating agencies, which has put you on negative watch on one of the triggers that we have for downgrade is achieving net debt-to-EBITDA of 3.5 by FY24 and the lower end of your EBITDA guidance kind of puts you at a very close range for that. So how confident are you of meeting your credit rating?

Anand Vora: As I mentioned, we are working towards the reduction of gross debt by about $500 million and we have identified a few areas where we will work on to achieve this. Clearly, for us also it's important and entire senior management is committed to ensure that we retain our investment grade credit rating, and we are in touch with Fitch as well as Moody's and S&P, who are cognizant of the overall industry dynamics and the headwinds the industry is facing. But we feel fairly confident that we should be able to reduce our gross debt by about $500 million and thereby meet the rating agencies requirements.

Moderator: The next question is from the line of Sanjeev Pandiya from Lancers Impex. Please go ahead.

Sanjeev Pandiya: So, could you give us some qualitative comments on your relative standing as far as the other global integrated producers are concerned, particularly, let's say FMC, Adama, etc., As the market reflects back, we might see higher market share come from those who are projecting higher volumes, but somebody has to lose out. What kind of player do you think will lose out and why, I mean, will capital cost, will factoring cost, will debt play an important role and could we see different attitudes by the banks towards which of the weaker players?

Mike Frank: Look, I think if you divide our portfolio into the two big segments, firstly, on the post patent side, our volume increases and our share gain in that market is primarily going to come versus the Chinese producers. In that segment, we're not as much head-to-head against the other global companies that you're referring to. I think the market share will come from the Chinese producers based on our portfolio and our superior market access. In our differentiated and sustainable business, again, today it's a smaller part of our business. So, I think from a material standpoint, while we are gaining share as you saw in in the results, our volumes were up in that segment 17% this quarter and so, considering the destocking, we're definitely gaining share in that segment. But again, based on the size of it, I don't think we're taking market share necessarily from one specific player. And so, I don't think about it in those terms in terms of having material impact on any specific other global producer.

Moderator: The next question is from the line of Aditya Khemka from InCred Portfolio Management. Please go ahead.

Aditya Khemka: Two questions. Firstly, on the call you said that you might get some off-patent market share from the Chinese players and currently the pricing from the Chinese players has been extremely aggressive. So, what is it that lead you to believe that they will get lesser aggressive, or we will get more competitive in the next few quarters and how would you win the market share back if

you could just sort of elaborate on that a little bit? The second question I have is on the debt. So obviously, we are guiding for a $500 million gross debt reduction. What would that translate to in terms of net debt reduction? So other than using our cash reserves, how much do we plan to use from operation to reduce debt?

Mike Frank: Let me take the first part of the question. And then again, I think it's somewhat of a continuation from the last question we got. If you think back over the last several years, we've made significant investments in getting closer to growers and getting market access. Virtually in every market with maybe the exception being China of course we would have superior market access versus our competitors in China. So, it'll be that leverage, that access, the strength of our portfolio that we'll use to compete aggressively in the marketplace. Of course, in addition to that in most of our active ingredients that we're present in, we also still have a cost competitive advantage versus our competitors in China. And so, we'll continue to be aggressive in the marketplace to allow us to run our plants at capacity, leverage that cost position and then use our market access to compete and ultimately gain share. So that's really the strategy in our post patent segment. On top of that, as part of our cost management and our operating efficiency, we're also really looking at how do we lean out our overall go-to-market approach in our post patent segment. And so, by doing that, it also allows us ultimately to be more competitive in the marketplace. And so, I think all of this kind of comes together and it's proving out this year on a year-to-date basis where we believe we're gaining share in the marketplace, and we clearly saw that in Q2 with volume increase across the board.

Anand Vora: Aditya, on the second part of the question, I think if one has to look at last year, that's financial year '23 in H2 we generated close to about $1.2 billion of cash from September to March, and as you would know Q4 for last year we didn't give good results. So, considering this year H2, we do believe that the improved performance, we should be able to generate a bit more cash flows considering a normalized operations in H2 like of the previous years, we do believe that we should be able to generate a bit more than $1.2 billion of free cash flows or cash flows to pay off the debt. Besides that, if you see last year, we had cash balance of about $700 million. We certainly are looking at releasing at least $200 to $225 million out of that which would further help us to bring down the gross debt. Addition to that, as I mentioned earlier, we are looking at slowing down our pace of CAPEX from the guided CAPEX spend of about $300 to $325 million. We're looking at, at least reducing it by $50 million. So that is the other piece which we are looking at. We will certainly be slowing down on our M&A activity. And in addition to that. as I said, we are looking at each and every item of a balance sheet and seeing how we can release some of the cash which may be stuck in either taxes or VAP and other items of current assets. So, these are some of the initiatives that we are looking at to deliver this $500 million gross debt reduction and thereby ensure that we retain our investment grade rating, and at the same time keep our balance sheet strong despite the difficulty.

Moderator: The next question is from the line of Varun Ahuja from Black Rock. Please go ahead.

Varun Ahuja: Just getting a bit more detail on this gross debt reduction of $500 million, I'm just trying to understand how you're managing the debt reduction from the perspective of higher working capital usage, so whether this debt reduction is going to come from freeing up some of the bank lines so that you can have greater flexibility for your working capital usage or whether you're looking at some opportunistic long-term debt reduction including the publicly traded debt which can effectively reduce debt much faster than the amount of debt that you can buy back? And then secondly, if you can throw some light on the unutilized revolver lines that you may have through the banks and the cost of funding for the same?

Anand Vora: I think it's going to be a mix of both long term and short-term debt, which we'll be looking at repaying. As you know, we have certain bonds which are outstanding, we also have the acquisition loan, some of which of course we have now swapped into sustainability loan, but the benefit which we have with these loans is that they can be repaid at a short notice so that gives us the flexibility. And thirdly, of course, is the bank lines which we have. Clearly, we will be using the cash generated to pay off the expensive debt and which could be a mix of both the bonds as well as the loans which are long term. At this stage, I think the current situation is industry phenomena, where every player in the industry has been impacted. I'm sure you would have seen the guidance coming from companies like FMC as well as by Corteva and some of the other players. We do believe that this is transitory in nature. Things should improve as we move forward. And so, at this stage we continue to have almost all the bank lines which we had last year. In fact, we are getting more lines from the bank, that's not a challenge as far as we are concerned, most of the banks are supportive and they understand the industry dynamics. So, at this stage all the lines which we had, which you are referring to as the revolver lines, they continue to be available to us.

Varun Ahuja: I guess the question on unutilized line, the quantum, if you can guide? I do understand you are mentioning that you're committed to the IG ratings, have spoken to agencies and all that. But I'm curious that you know why IG ratings are that important because the sense I have is you don't have any bank lines that should be linked to the rating angle. So, I mean, at this point in time the business environment is a bit tough, why don't you think about also balancing the shareholder returns versus just kind of maintaining the IG rating, I'm curious how you're thinking about that?

Anand Vora: Of course, shareholders returns are equally important, and we declared the dividends even this year and those were paid, so small shareholders were taken care of. We do believe that maintaining investment grade would be something which also the investors whether be it equity or debt would look at it because that does help to bring in some level of better governance especially from a financial management point of view.

Moderator: The next question is from the line of Tarang Agrawal from Old Bridge Asset Management. Please go ahead.

Tarang Agrawal: Couple of questions from my side. The first one, what's the absolute volume of inventory that the business would be sitting as on 30th September 2023 versus 30th September 2022?

Anand Vora: So, the absolute inventory, it's there in the slide, but I'll repeat it for you; it's about. INR 18,246 crores as of 30th September '23, in the previous year it was INR 19,457 crores.

Tarang Agrawal: But prices have come up significantly, so that's why I refer to the volume of inventory.

Anand Vora: Raj, you want to take that? I think it's about 10% higher, but Raj, go ahead.

Raj Tiwari: In terms of volume, it would be about $50 to $60 million more as compared to last year.

Tarang Agrawal: In percentage terms, that would be?

Raj Tiwari: It would be around 10% higher, roughly around that number.

Tarang Agrawal: I just wanted to see how conservative are you or what is the probability for you to meet your guidance of a flat revenue growth for FY24 as things stand today? And if that were to be the case, you're essentially looking at a sharp volume led growth in H2 over the H2 for the same period last year?

Mike Frank: Look, I think Farokh can talk about it from a global commercial perspective and Ashish to give some light on that question from an India perspective too.

Ashish Dhobal: From an India perspective, this is right, I think H2 is going to be volume-led, H2 also is more stable half for us because in wheat we have a very strong portfolio. We also have chili where we are better. Cumin, again, is a crop which is not too dependent on rain. So, I think we have a very stable H2, and this is definitely led by volume growth of our post patent products and also, we have four new launches coming up in H2 which also adds.

Farokh Hilloo: So, from a global standpoint, I think there are a couple of points that gets us to think that we would be reasonably well placed in H2. And that's primarily because in our H1 we have seen that customers across geographies have been extremely reluctant and slow in filling up whatever they have used in the first half. The second thing that drives us to feel that the volumes would be in our favor is when we are looking at the major geographies, let's say North America, Brazil, Latin America, we are also noticing that the planting wherever it has happened is at the same acreage as last year or maybe in certain geographies slightly higher also. So, the agriculture across the globe is pretty supportive except for a few countries like Mike spoke about in the initial stages like where there is a bit of a drought and that's a challenge. But, if you look at the major geographies, I think they are all good as far as the acreages of the crops is concerned. The growers are going to use the material sooner or later, the distributors will stock up again, they might not stock with the same drive and gusto that they have been doing in the past, but they

would definitely need to stock. So that's the reason why we feel a little optimistic on the volume maintenance.

Mike Frank: Maybe I'll just add one more perspective on that. If you look at specific markets like North America, our volume degrowth year-to-date has been very significant. As distributors and retailers want to put inventory into their warehouse much closer to this season versus in advance of the season, which they've been doing in the last few years. Again, I just think when you look at the fundamentals you recognize that grower demand continues to be strong. Eventually, we're going to see a new order pattern, which we believe is going to start playing out in Q3, especially in our Q4 and into Q1 and Q2 of next year. And so, I think just the order patterns are pushing back which is why we have a lot of confidence that we're going to see the volume growth we're expecting in the second half of the year.

Moderator: The next question is from the line of Vishnu Kumar from Avendus Spark. Please go ahead.

Vishnu Kumar: The competitors FMC and Corteva have mentioned that Brazil market specifically seems to be a bit of a challenge for the fourth quarter and highlighted certain issues. Now, where are we seeing the market specifically on Brazil because for a second-half Brazil is a very key market?

I mean other companies are highlighting, that one of the key reasons they are downgrading numbers apart from the inventory destocking is their very negative view on Brazil. So, are we differing, or we still think there is an opportunity there? Just to understand what are we differently seeing there?

Mike Frank: Well, so firstly, as you may know, Brazil's right now when they're planting season for soybeans, this is a big crop, and we are expecting to see a record area planted this year around 45.5 million hectares or in that range. So far, at least in the South part of the country the rains have actually been higher than normal, the weather in the central to north of the country is near normal and so we're expecting to see a very strong demand for herbicides, insecticides and fungicides to go over top of that crop, and some of that inventory is already sitting in distribution but some of that will also come in season. And so, yes, so we're optimistic that as growers start using crop protection products for this upcoming season, there will be a demand pull from distributors back to suppliers like UPL. That's why if you look at our Latin America business overall, our volumes are up this year. We've got a very strong portfolio. Some of our new products like I mentioned Feroce and Evolution are performing very well and gaining market share in both the insecticide and fungicide market. We expect that to continue as the year plays out and yes, that's why we're optimistic generally for the opportunity in Brazil through the rest of this year.

Vishnu Kumar: If I look at your absolute inventory over the last two, three quarters, we have been consistently going up versus the other global companies which have either been flat or lower. Is it partly because we have opportunistically bought a lot of stock and when we place the product in the market, we will probably be cheaper versus our competition, is that the reason why our inventories are relatively higher and that's where some of the second-half confidence comes?

because our pricing may be lower than the others. If you could help us understand on this because our inventory positioning seems to be slightly different versus the others

Mike Frank: Firstly, we started from a much lower position. So, if you look at where we started on April 1st, we were in a much lower inventory position than the rest of the industry combined. And then secondly, the second half of our year is a much larger year and so we build inventory as per our production and demand plans to service that larger second-half of the year. So that's why our inventories are higher this year, it's normal in terms of the cycle where we start the year low, and we build inventories through the first half to be able to service the second half of the year. Now, as we come through Q4, we would expect again to see our inventories reduce to similar levels to what we had from days of inventory to what we had at the end of March last year.

Raj Tiwari: In fact, Mike, as you alluded, we started the year with probably lowest inventory in the industry; we were at $1.7 billion and even today our inventory is lower than last year's inventory of course, in terms of value. In terms of volume, our inventory is slightly higher, but we are prepared for a much bigger H2 and that's going to help us there.

Vishnu Kumar: But in terms of taking the hit on either the distributor inventory, the reduction in pricing at the distributor level or our level, is it like can we say that most of the pain is already taken or we still expect that the Brazilian season is going to start or specifically in those particular markets we still have some conversation with our distributors pending, so there could be some one-off events where we will still have to take the hit on the distributor inventory and our inventory there and why not take it fully and write it off in 2Q itself?

Mike Frank: That's a good question. So, where we have certainty in terms of negotiations that have concluded, we have taken a provision and so we are set for that, and we've taken that pain in Q2. That being said, we do expect to see some more negotiations to play out through the second half. So, just as you said, a lot of it is behind us but probably not all of it. So, as we continue to work with our key distributor customers specifically in North America and Brazil, we could still see some impact in the second half, but that's yet to be negotiated.

Vishnu Kumar: You mentioned that there is a slightly differentiated way in farmers approaching more in terms of just in time. This obviously puts pressure more on the larger companies like us. Is this model going to be forever or it's just a two, three quarters window where the farmers or rather end of the line distributors will order more just in time and have lesser inventory with them or this is just a transitory window for this just in time model?

Mike Frank: If you look back at the last couple of years, with the supply chain challenges coming through COVID and the Ukraine war, at that time interest rates were also much lower than they are today. So, distributors were pleased to fill up their warehouses and they weren't thinking about just in time. Now, we're on the other side of that where interest rates obviously are higher. And so, everyone's trying to manage their working capital, including distributors. And there's less strain on supply chains. And so, I think the assumption distributors have is that they can order in season

like you're saying just in time and get products. Now, historically, that comes with some risk because if you suddenly get a disease outbreak or an insect outbreak, then if the distributor can't have the product available for the farmer customer, then they can lose an opportunity. So, look, I think the pendulum is probably swinging a little bit too hard towards this just in time idea and eventually it will come back to likely where we were kind of pre-COVID where distributors traditionally try and end the season with anywhere from 20% to 30% ending inventory. I think that's where we'll get back to. But right now, they're trying to run it a bit more leaner than that.

Moderator: The next question is from the line of Rohan from Nuvama. Please go ahead.

Rohan: Just a couple of questions. First is on our performance in India versus other global markets. We are seeing quite a contradictory performance where the global companies have seen a huge volume degrowth. Our UPL Corp., which is representation of the global markets have actually grown by 1% in volume terms. All the impact on top line is mainly price-led. However, in India market we have seen a volume loss by almost as high as 27%, which is a quite contradictory given that domestic markets have done reasonably well in the formulations market unless we are not too much in B2B. So, if you can just give some explanation towards this?

Ashish Dhobal: I think as compared to the global markets the structure of the India market is very different. I think it's a B2C kind of a business where we are the market leader and I think even for some of the post patent products, we sort of set the benchmark in terms of prices. So, you would see our price correction in India is way less as compared to the global markets because in India the price that we would set, the competition remains 5% 6% 10% below that thing. So, I think in India the way prices play out is very, very different from more B2B structure. So, in India the small portion of B2B business we have has grown big. But we have tried to make sure that we have not lost too much in terms of prices. So, our price variance has been relatively less as compared to our volume variance because we are pretty sure that as and when this higher price inventories are liquidated, we would again then come back into business. For most of the post patent brands that we have, the only option for the competitor is to reduce it further. So, I think it's a lose-lose game and we have played it slightly differently as compared to the global markets. You would see the impact of that in Q3. think starting from October, we would start to see an uptrend in most of the products for the India business.

Rohan: But actually, the volume degrowth of 27%, I still didn't get that?

Ashish Dhobal: So, I think there are two, three other factors for that. One was that in India our strong holds are cotton because cotton is a big part of the Indian industry, and we are the leading company in cotton. The other crop where we are leading is a segment on summer pulses that segment that we had created in last three-four years. What happened in both these crops is that in cotton also our stronghold was north. And in north you would have all heard about pink ballworm. Because of the pink ballworm, that particular segment where we were market leaders went down big time. It grew in the west but west is relatively low chemical usage. Similarly, for pulses in April,

May, June, the whole pulse segment, green gram and black gram segment, which is there in MP, Maharashtra, North Karnataka was totally washed off because of the drought conditions and after that flood condition. So, I think that's a segment in which we lost big time. We got a lot of returns because of that. The third piece of course is glufosinate. We were the only player till last year. This year we had 13 to 14 generic entrants in glufosinate. We did lose volumes on glufosinate, but that's once again because we've tried to maintain a price parity and not started competing in terms of prices. We will once again see the positive impact as the inventories have been washed off. We'll start seeing the impact of volumes rising again because that initial impact each company in India would have some loyal distributors and they do place some products there. But purely in terms of the brand equity that we have, we will start seeing the impact of now our brands going up once again in the third quarter and the fourth quarter because for the generic entrants have just to come in India and to start straight away selling the brands is not easy at all. So, we have incurred pain in the first half because of a very, very weak cotton, very, very weak pulses where we have absolute leadership position and the glufosinate generic entries of 13 to 14 companies which initially they were able to place some product. That sort of also explains some of the difference in the results that we would have as compared to some of the other companies because we are a little bit of a cotton and a pulses heavy company as compared to a company having a bigger portfolio in rice, which would probably look a little bit better.

Rohan: Your presentations also mentioned that in domestic market further where EBITDA margins have come down from almost 20% to 12%. You mentioned that it is all mainly led by the inventory write-down. If it should not have been there, then our contribution margins would have only been 100 bps lower. So, it seems that roughly close to as much as 200 crores to 220 crores kind of markdown or inventory write-down you have taken. Do you see there is still any scope for inventory write-down or it's all over and the raw material prices have started going up, so what kind of inventories we are sitting, and can we expect some kind of margin gain here?

Ashish Dhobal: The inventory revaluation impact in H1 has been Rs.100 crores, not Rs.200 crores.

Rohan: Next question is on our debt number. So, Anand sir, though you were giving the answer to earlier question, sir, can you repeat the net debt number, I mean after $500 million, I understand that you mentioned $300 million will be basically cash reduction, so net debt repayment only will be $200 million can you just clarify that?

Anand Vora: No, no, we are talking of gross debt reduction, and as I said, we had a $700 million cash sitting as of 31st March 2023 and this we said we will bring it down to $500 million, so about $200 million of that cash will be used to pay off the gross debt. So basically, what we are saying is that we will reduce our gross debt by $500 million which should flow down to the net debt reduction also.

Rohan: So, net debt reduction will be $300 million actually?

Anand Vora: Yes, you are right.

Rohan: Out of that $50 million we are talking about; we have reduced from the CAPEX number and balance will be primarily coming from the working capital reduction because we are looking at no growth in full year and a very small amount can come from the free cash flow generation in second half. But largely it's the working capital reduction only which are still in teams to reduce $300 million net debt?

Anand Vora: No, I mean, if you look at what we are talking about the numbers, with a good H2, you should see some good cash realization coming out of H2 besides the working capital also. The margin improvement, the volume growth which we're talking about, all those things, Mike also alluded upon that we are selling more of differentiated and sustainable products which are better margin products. So, all those factors should bring in the higher EBITDA which we refer to as somebody made a ballpark estimate of 21% to 23% EBITDA for H2. So, that should generate additional cash, which should help us to also pay off the debt. There are several things we are working on, and this should help us to bring down our gross debt by 500 million.

Rohan: Just one further clarification. So, we are talking about $100 million cost reduction as well. Of that roughly you are looking at $50 million to be achieved this year?

Anand Vora: That's right.

Rohan: Out of that, only first half, I think we have only seen some $8, $9 million of reduction?

Anand Vora: We announced this initiative at the end of Q1. The execution has begun. As we said, we have taken the initial steps and we had $9 million worth of savings already come in by end of Q2 and we should see a large part of this coming in H2.

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

Abhijit Akella: Just with regard to the outlook for the second half of Fiscal '24, region wise, if you could please just share your perspective on which regions you would expect to show year-over-year growth out of your portfolio?

Mike Frank: I would say on the second half of the year we'd expect growth in every region with potentially the exception of North America. So, again, yes, across Latin America, as we said earlier, I mean, our performance in Brazil in the first half was down, in the rest of Latin America, it was actually up in the first half of the year, so we've got really good momentum and so we would expect that to continue. Europe, generally a good start to the year. But, as we see volumes get pushed to the second half, we'll be able to participate in that and so that should benefit us on a year-over-year basis and in the rest of the world, again, we've got very good momentum, strong volume growth on a year-to-date basis. The only thing is concerning right now are really kind of some dry conditions in parts of Australia and parts of Southeast Asia. But, overall, we would expect growth in that region as well for the second half of the year. North America, we would expect Q3 to be somewhat similar to Q3 of last year, and then Q4 again because of the price erosion

that we've seen in the market and with our portfolio in particular in North America, I think Q4 will be a challenging quarter just on a comparative basis, so we may not see growth in North America in Q4.

Abhijit Akella: Just one other thing I was hoping to understand, you expect destocking to continue for another six to eight months as you mentioned at the beginning of the call and yet in the second half of this financial year, we're expecting strong volume growth for ourselves. So, I'm just sort of trying to reconcile those two statements and see how they might tie in together?

Mike Frank: Yes, that's a good question. So, look, I think for the most part in a lot of regions, the destocking is mostly behind us. That would be true in the rest of world region, it would be true in most parts of Latin America with the exception of Brazil, we think it's largely true in Europe by this point in time. So, I think it still comes then down to some more destocking that we would expect to see as the year plays out in Brazil and in North America. I think again, it's almost on an active ingredient by active ingredient basis. And so, it's really hard to look at it across the entire marketplace. But when we look at our portfolio and the products that are critical to us, we would expect in North America in particular to see the de-inventorying have some impact through the next six to eight months. In Brazil, we're hoping that the impact of the inventory is largely behind us by the end of this fiscal year. So, again, it's a little bit on a product-by-product and market-by-market basis.

Moderator: The next question is from the line of Nitin Agarwal from DAM Capital. Please go ahead.

Nitin Agarwal: Mike, just one question. When you look through the next few quarters, at what stage you see the industry or for that matter our portfolio start getting to positive value growth from a pricing perspective?

Mike Frank: I think that's a good question, Farooq, our Chief Commercial Officer, do you want to take a first shot at that?

Farokh Hilloo: Well, I think like we have had several rounds of discussions internally. We feel that we should now accept the fact that this is really the new normal and we would expect the volumes to grow, we would expect the business to grow, but the prices might improve marginally, but they are definitely not going anywhere close to the prices of 2021 and 2022 that we had seen because there is so much of excess capacity that has come up in China and it's really a lopsided balance at this particular point of time as far as economics is concerned. We have got so much more capacities versus the demand globally. So, the prices are not going to go up anytime soon, but we expect the business to show an improvement.

Nitin Agarwal: And if I can still expand it a little further, I mean, the fact that we're looking for the environment that we will not be getting pricing growth, what implications does it have for the gross margin trajectory for the business?

Farokh Hilloo: I think the gross margins would come back to where it was earlier for the simple reason that we are also seeing the compression on the raw material prices, the cost of raw materials has also come down, our overall manufacturing cost has come down. So, we do not see a compression on margins going forward. We expect that to expand to the normal state that it was earlier, but the prices are not going to go to the level that they were.

Nitin Agarwal: Anand, now interest cost as a percentage of our EBITDA has become a much higher component than it used to be a couple of years back even after the post-acquisition period. I mean how are we looking at that interest cost component versus reducing the salience of that on our EBITDA?

Anand Vora: You're saying interest cost as a percentage to EBITDA?

Nitin Agarwal: It's become a larger component than it used to be earlier.

Anand Vora: Until last year, interest cost average was 4%, then we saw it go much higher. So, we while we have been continuously reducing debt, if you see last year also, we reduced by $400 million, we are looking at the reduction this year also to be $500 million. Looking at where the interest rates are, and from what we are hearing from the Fed and various other central banks, we don't seem to believe that the interest rates would come down in a hurry. So, the only way to bring it down is to reduce your debt and as you see we have also taken up the initiative to reduce our debt by about $500 million at the gross level. So, that seems to be the only way at this juncture to bring down our interest costs. We do try to get a better credit term on our purchases of raw material considering the size of operations that we run today. But these are some of the few tools which are available to us. We are not very much in favor of structured products and other things because one way or the other they eventually turn out to be much more expensive. So, keeping it simple, we are looking at reducing our gross debt to bring down our interest costs.

Moderator: We have the last question from the line of Mark Tan from Sawdust Investments. Please go ahead.

Mark Tan: Just two questions from me. The first question is in regard to your gross debt reduction. Given that you mentioned that the rate environment has caused interest cost to be quite high. What do you think about the USD bonds? The second question is, can you elaborate a bit more on the factoring situation because I think in the first half, factoring quantum has come down. You also mentioned that you expect your working capital to be stable, but potentially you might reduce a bit of a factorizing. So, just wondering, can you comment a bit about the receivable quality and why are you choosing to factor less instead of factoring more to improve your cash flow?

Anand Vora: Sorry I didn't get the first question, Mark. If you can repeat the first question I didn't understand.

Mark Tan: So, the gross debt reduction, will it be fair to say that it's targeting those floating rate loans, or we could actually be looking to buy back some of the US bonds as well.

Anand Vora: Buying back of the bonds requires the procedure to be followed where we have to announce it as a part of our liquidity management and give a fair chance to all the bond holders, and it's a process which can be a bit lengthy process. As compared to that, today as you see the bonds are at a fixed rate and we have issued it and the cost of it is much lower, whereas the loans are at a more expensive rate because they're linked to the LIBOR, and we can repay it whenever we want. So, that prepayment option is available to us. So, we would evaluate both and see what is best possible considering also the tenure of the bonds as well as the loan tenure. So that's something which we will look at and decide based on the cash flow generation as to what should be paid off. That's one. Two is again that doesn't mean we are ruling out paying off the bonds. Second is on your point on the non-recourse securitization. That tool is always available to us. We have the banking limits in place for non-recourse securitization. However, as you know the rating agency considers that as a debt and therefore that's again a short-term debt. So, we would look at the options to see whether we borrow on working capital if we can get it cheaper, which is available for a very short term vis-à-vis the non-recourse securitization. Although our preference is for non-recourse securitization because it also takes care of our credit risk of our customers. So, that's a preferred option for us. However, the rating agencies considered that as a short-term debt and adds up to our overall borrowings. We remain indifferent and whatever is best and what helps us to release the maximum cash flows, we'll use those tools available to us.

Mark Tan: Are you able to share on the factoring costs? You can really share that number.

Anand Vora: It's at the same about 150 to 200 basis points above SOFR. So, these are SOFR linked non-recourse securitization leads which we have at our disposal and some of the banks do charge similar rates for short-term borrowings also.

Mark Tan: So, it's quite comparable to your short-term borrowings? Okay.

Anand Vora: The additional thing is you get your risk covered. So that's the additional benefit of non-recourse securitization.

Since this is the last question, thank you very much all of you for joining us on this call. If there's any follow up questions to be asked, please reach out to Radhika Arora or myself and we'll be happy to provide you whatever information as well as the necessary answers. Thank you once again for joining us. On behalf of all the management, thank you once again for joining us on this call today.

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