"UPL Limited Q1 FY-21 Earnings Conference Call"

July 31, 2020

MANAGEMENT: MR. JAI SHROFF – GLOBAL CHIEF EXECUTIVE OFFICER
MR. RAJENDRA DARAK – GROUP CHIEF FINANCIAL OFFICER
MR. DIEGO CASANELLO – GLOBAL CHIEF OPERATING OFFICER CROP PROTECTION
MR. ANAND VORA – GLOBAL CHIEF FINANCIAL OFFICER
MR. CARLOS PELLICER – GLOBAL CHIEF OPERATING OFFICER STRATEGY INNOVATION AND INTEGRATION
MR. FAROKH HILLOO – CHIEF COMMERCIAL OFFICER
MS. RADHIKA ARORA – HEAD (INVESTOR RELATIONS)

Moderator: Ladies and gentlemen, good day and welcome to UPL Limited Q1 FY21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Radhika Arora, Head Investor Relations. Thank you and over to you, ma'am.

Radhika Arora: Thank you operator. Good morning and good evening ladies and gentlemen. Thanks for joining us today. On this call we will be referring to the presentation that has been shared with you and is also available on our website. From our management team we have with us Global CEO – Jai Shroff, Global CFO – Rajendra Darak, COO – Diego Casanello, Global CFO – Anand Vora, Carlos Pellicer – Global COO (Strategy Innovation & Integration) and Farokh Hilloo – Chief Commercial Officer. The presentation will have a business update followed by a financial update. Please note, that some of the information in today's call may be forward looking in nature and will be covered by the disclaimer page of the presentation. With that let me hand over to Diego for a business update. Over to you.

Diego Casanello: Thank you Radhika. Good afternoon everyone. Today I'm pleased to present robust results for our first quarter in the context of what is still an unprecedented global health crisis that continues to affect millions of people around the world. Our team contributes to our communities every day by making sure we support farmers in keeping food production uninterrupted. In this time of uncertainty, we have never been so clear and so proud about being part of this industry. I want to extend my sincere thanks to all our employees, our hearts and souls are with the victims of this terrible pandemic.

During the quarter, we had to deal with changes in demand patterns, currency volatility, and restrictions to move material in many geographies. And yet we were able to achieve revenues at the level of the strong last year's quarter and increase our EBITDA by 3%. In our last earnings call we mentioned that despite the significant improvement in net working capital achieved last year, we still saw opportunity to keep optimizing. Thanks to a strong focus on collections and payables. We reduce once again our net working capital by 31 days.

Our EBITDA was supported on the one hand, by 20 basis points increase in gross profit margins. This is a development that we also anticipated during our last quarters annual call. Three factors have contributed to the positive gross margin development. First, we have created incentives for our country teams to sell higher margin and differentiated products, improving our product mix and putting focus on the launch of new products. Secondly, we have considerably reduced our cost of production in several of our key product lines. Thanks to synergies from the acquisition of Arysta, the continuous investments in backward integration and by taking advantage of lower raw material prices. And lastly, after a significant devaluation of several emerging country currencies in Q4, especially the Brazilian real, successful increasing prices in local currencies to recover a US dollar base price base. This is a gradual process and although year-over-year our price variance shows minus 1%, our pricing has recovered a large part of this currency weakness. This effort continues as we move into Q2.

The second contributor to our results was an 8% year-on-year reduction of our fixed cost. We put tremendous efforts on the acceleration of the implementation of SG&A synergies and COVID related contingency measures. With respect to COVID-19, many of our employees and customers continue to work from home and we are learning ways to increase sales efficiency and leverage digital media to keep regular contact with customers and promote our innovations. We believe that there is room to continue to reduce our SG&A to revenue ratio in this and coming years. Our main objective is to expand our cost leadership in post patent product lines, while at the same time make sure that we invest in growing our business with differentiated and sustainable solutions.

Agronomic conditions in most markets in both the Northern and Southern hemispheres have improved compared to the same period last year. The pandemic has had limited impact on crop planting patterns. While crops like cotton, sugarcane and corn were somewhat impacted by lower consumer demand and weak oil prices. Crops like wheat, rice and soya bean show strength. The pandemic also caused supply delays in the first few weeks of lockdowns in almost every region, while our logistics have significantly normalized. This situation led to a shift of orders from Q1 to Q2. In summary, we expect robust demands for crop protection products in the coming quarters and are well positioned to deliver growth in Q2 and the full year.

Now, I'm coming to the regional highlights and you will find them in the deck. The following two slides provide more details on the performance by region. In LATAM we are seeing good economic conditions across the region with an increase in soy and corn acreage. Our teams continue to successfully increase prices in local currency to gradually compensate for the significant devaluation experienced in Q4 of last year, especially in Brazil. The currency fluctuations have led to postponements of orders from Q1 to later quarters, closer to the demands and changing the facing of our business in the first half. North America has been impacted by COVID-19 related pre buying in Q4, agronomic conditions are good, and we are well gaining market share with herbicides. We are very well positioned to participate in the growing Glufosinate market this year, which is expected to capture share from competitive products like Dicamba and Glufosinate, both of which are facing public pressures. Additionally, we expect that the China and US trade war will remain a tailwind to UPL by helping customers hedge supply risk. North Europe delivers a strong herbicide campaign with robust demand in Russia in Central Europe, offsetting a weaker business in Southern Europe, which experienced COVID-19 related challenges in Spain, France and Italy.

Now moving to the next slide in the deck in India UPL outpaced a 15% growing market by delivering 27% growth. We saw strong performance of insecticides and herbicides, with differentiated branded business growing 36% in addition to our continued adoption of pronutiva packages, driving growth in BioSolutions. Despite the impact of the coronavirus in the region, India had record collections in Q1. In the rest of the world we saw strong growth in Southeast Asia, thanks to the return of rains and revenue synergies with an increase in herbicide sales in Vietnam. We also saw a demand recovery in Asia as the continent came out earlier of imposed lockdowns. Furthermore, the strong growth in Asia offset the adverse currency devaluation impact sales in Africa.

Now shifting gears and moving to the next slide, we would like to provide an update on our sustainability performance. Aligned with our open ag purpose we are constantly working to reduce our environmental footprint and develop innovative solutions that benefit farmers and society. The Dow Jones Sustainability Index uses the unique opportunity to provide an in depth and complete picture of our global sustainability efforts. Our score improved by 61% compared to the previous year. Similarly, our financial times Stock Exchange Russell score came out at 3.7 out of 5, which is 68% higher than the industry average. Also, worth mentioning is that 60% of our plans are zero liquid discharge, and we will continue to focus on becoming a more sustainable organization in the future.

As, I mentioned before, flipping to the next slide in the deck. The pandemic has brought forth many challenges, but also many opportunities to think about our business differently. Our team never ceases to amaze me, and with the drive and commitment it has been really incredible in COVID-19, may have caused an abrupt interruption to our travel plans, but it did not slow down our ability to effectively engage with our customers. Through our newly formed customer engagement initiatives, our team quickly adopted multiple technology platforms to continue to engage and create customer intimacy. While we know technology will never fully replace the effectiveness of face-to-face interactions, we're taking this opportunity to innovate in the way we deliver our product launches, trainings, conventions, and other key engagement activities in the new virtual environment. The slide shares a few ways or things around the world, we can quickly pivot to digital solutions and operate successfully during the pandemic, despite imposed restrictions.

Now moving to the next slide in the deck, our commitment to technology and innovation is also continuing in a big way. This is demonstrated through the opening of our state of the art OpenAg center in the Search Triangle Park, USA. This global R&D hub enabled partnerships with other innovative companies to get new technologies tested, approved and out in the field. Our smart R&D development program is driven by market and portfolio needs, that is technology agnostic and cost effective. A new portal was recently launched on our global website to quickly connect partners with the R&D team and in defy opportunities for collaboration.

Now, I want to use this opportunity to say thank you to all our employees. For their efforts this quarter and to thank farmers and partners for trusting us with their business and with a strong belief in our OpenAg purpose, we will continue to position UPL as the global leader in providing solutions to make food more sustainable for all. I want to thank you very much. I will now turn the call over to our CFO – Anand Vora to provide more details about our Q1 financial results. Anand it's your turn.

Anand Vora: Thank you. Thanks, Diego, thank you very much. And good afternoon, good day to all of you all. Before taking you through to the key numbers for the first quarter. We take as having read the safe harbor statement. Let me start with the key financial highlights and then I shall take you through the detailed financial numbers. We had an encouraging Q1 in a very challenging environment in the middle of the global pandemic. Supply chain delays, currency volatility, trade wars, changing demand in crops. While the revenues for the quarter were flat, we delivered at 3% higher EBITDA versus last year on the back of a lower cost of goods and SG&A. Net debt was maintained at March 2020 levels at 22,000 crores or around 2.9 billion. Key working capital, our net working capital at 84 days one of the lowest working capital levels for Q1. And we had an EPS jump to Rs.7.2, Rs.7.20 per share versus 3.74 per share last year in the same quarter. Going into the details of the financial numbers. Let me take you through some of the key financial numbers in the profit and loss statement.

We are comparing financial results for Q1 FY2021 versus the same period in the previous year as on reported basis. The reported figures for Q1 FY2020 excludes the PPA adjustment of Rs.340 crores in the cost of goods on account of additional product inventories for the last year. So, for the previous year, the corresponding before PPA pro forma numbers for Q1 of last year are available in the appendix for your ready reference. Gross margins were higher by 11% on a reported basis. Gross margin as a percentage to revenue was at 43.2% this quarter against 38.7% in Q1 last year, an increase of 450 basis points. On the pro forma basis the gross margin as a percentage of revenue was 30 basis point higher versus the same quarter last year. The quarter had an impact on account of FX especially in Latin America. In certain products, we saw price decline on the back of cheaper Chinese exports, which were offset by a combination of increase in prices in local currency, in some regions as well as because of the cost synergies that we got on account of the integration of two company. We did very well in terms of optimizing our fixed costs, and these were lowered by 8%. As compared to that, of Q1 in the previous year. EBITDA was higher by 29% on a reported basis, EBITDA as a percentage of revenue was at 21.7% this quarter against 16.7 in Q1 last year, an increase of 500 basis points. On a pro forma basis, the EBITDA was higher by 3% and EBITDA as a percentage of revenue was 70 basis point higher than the same quarter last year.

Exceptional items were at 25 crores versus 72 crores last year, largely on account of redundancy cost of integration. So, this is exceptional items are largely on account of redundancy costs, net profit at 550 crores versus 286 crores of last year in the same quarter. As mentioned earlier, we are pleased to report an EPS of Rs.7.20 per share almost twice of that of the last year in the same quarter. On cost synergies, and cost synergies in Q1 stood at $11 million or in INR at about 83 crores and cumulatively the cost synergies are at about $120 million till date. As informed to you earlier the cost synergies at the time of the closer offer it's a transaction we had guided for a total cost synergy on a run rate basis of about 200 million plus. So as of first quarter and cumulatively we have already delivered the cost synergies of $120 million.

Moving to revenue synergy, revenue synergies in Q1 stood at 7 million or in INR terms 53 crore and on cumulative basis, the revenue synergies stood at 247 million from the time we started the integration. As mentioned on the revenue side, we had guided for revenue synergies over a period of three years of 350 million. So, at the end of one year and one quarter, the first year and one quarter we are now at already at 247 million in terms of revenue synergy. Working Capital analysis, we continue to optimize the working capital and saw a reduction of 31 days over that of the previous year in the same quarter. The inventories for the quarter were flat at 106 days. Receivables at 116 days were lower by 8 days, again those of the previous year. And those on the previous year which were at about 124 days and payables at 136 days were higher by 23 days as compared to previous year in 115 days. I must add here that the procurement team has done an incredible job in ensuring that we could maximize our terms with our vendors. And that's going to be the trend as we move forward during this year. So, the net working capital stood at 84 days as compared to 115 days in the previous year.

On the cash flow statement, cash flow from operations for the quarter stood at 871 crores. Some of the other key cash numbers to impact the cash flows were borrowings of about 3828 crores which includes 3778 crores of bond issuance. We had an issuance of bond done in this quarter, it was a 10-year bond, which we issued, and it was a US dollar bond which was issued for a tenure of 10 years. It was a dollar bond issuance only and the basic purpose of the bond issuance was to buy back to use the proceeds to buy back the bonds which are maturing, the five-year bonds which are maturing in October 21. So, along with the bond issuance, we did announce a tender offer to buy back the five-year bonds, which had maturity in October 21. We got about 82 million worth of bonds, which we bought back, the balance bonds we continue to tap the market if they are available at par value, else we would be redeeming them on maturity in October 21. The proceeds of the issuance after the tender offers being close would be kept at insurance capital. So that in this global pandemic, if there is any tightness in money markets, we have adequate cash on our balance sheet to ensure that our growth is not impacted.

Gross debt as of June 2020, was at 32,500 crores as against 28,800 crores in March 2020. However, the net debt maintained at 22,000 crores or US dollar 2.9 billion which is almost at the same level as of that of March 2020. So, net debt at June 2020 stood at 22,000 crores. To summarize, we believe that the good agronomic conditions globally, improvement in the regional and product mix, cost synergies and further optimization of fixed costs would help us to deliver growth in revenue and EBITDA. Due to uncertainty around COVID we are not providing specific guidance. But if things were to stay as they are, we do expect to deliver revenue growth in the range of about 6 to 8% and an EBITDA growth in the range of about 10 to 12% for this year. On the balance sheet side, we remain committed to achieving a 2x net debt to EBITDA by end of March 2021 and maintaining our investment grade trading. This in turn would involve, therefore a reduction of close to about a billion dollar of net debt from the 500 million which we did last year and 500 million which we intend to do this year. With this, I hand over back to Radhika. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Love Sharma from Lombard Odier. Please go ahead.

Love Sharma: Just two follow up questions from me. So, firstly on the working capital, if you can indicate the improvement in the trade payables, which we have seen if we can give some details to what kind of progress we can see further in this and if anything like the banker acceptances, et cetera being also included as part of these payables. And, on the receivable side, how much of tax have been done this quarter. The second question is with respect to the Latin American business, and you have indicated that you do expect to see whatever has been sort of lost within the last quarter to come back in subsequent periods. What’s the trend so far in the second quarter for this business for Latin America, if you can give some color? Thank you.

Anand Vora: Sure Love. Thanks, Love for asking the question. I’ll first take the first question on working capital and on factoring and then I will hand over to Diego to answer on the Latin America business. On the working capital on the payable side, when we announced our results for the full year, I do recollect mentioning clearly that we have opportunity to increase the payables by at least 15 to 20 days and we started the year itself work closely with the procurement team. And clearly push them to make sure that we get extended credit terms. So, we do believe that we will be able to end the year with at least 15 to 20 days increase in payables. So, we are on course we did well in Q1, but we need to maintain this as we move forward. In terms of receivables, our factoring in this receivable as of June 20 is about roughly about 6000 crores. This has reduced from 6970 crores which was there as of March 2020. So, there is a reduction in factoring by about 970 crores in this numbers as of 30th of June. As compared to the same period last year. The last year as of June we had factoring of close to about 4000 crores. So that’s on the factoring which is there sitting in this receivable. I’ll hand over now to Diego to take the question on Latin America business. Diego over to you.

Diego Casanello: Yes, thanks. As, I said in the opening remarks we expect the Latin America business to perform well this year. What we see is a postponement of orders, but we have a good part of our orders on hand. And, what we see is that the market agronomic conditions in general with some exceptions in the south of Brazil but in most of the market in Brazil is in very, very good shape. You must think that with this current level of exchange rates, farmers have very good margins. And, there is more soy and more corn than the last season. So, overall, we are very positive about the Latin American market for the year. We also have a good amount of new launches this year that will significantly shape our business in the future years. In particularly one product that is going to be launched in the biggest market in Brazil which is the Asian rust fungicide market for soybean. The market North of a $1.5. So here we have a fantastic product that is going to be launched later in the year. So, we’re positive about the prospects here.

Love Sharma: Thank you Diego understood. All right, just one follow up Anand, on the payables. So, does it include any bank acceptances, etc as part of your payable recognition?

Anand Vora: Generally, we don't do that. If at all there would be LCs but otherwise, we don't have bank acceptances.

Love Sharma: Okay, got it. And just one follow up on the LATAM market. So, do we expect most of this loss, let's say business from the first quarter to come back within the second quarter?

Diego Casanello: Yes. So, first, it's not lost business. So, it's a postponement so what we're seeing obviously with this currency fluctuations usually change the phasing of the business. So, we are expecting Q2 to offset the Q1 situation, and one very interesting fact is that, we are increasing prices in local currency in Brazil to offset for the currency devaluation of last year. When we are ahead of our own plan in terms of achieving that so that having that behind us, I am very confident about our ability to deliver in Brazil.

Moderator: Thank you. The next question is from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.

Girish Achhipalia: Sir just one operating expenses. On a Y-o-Y basis the operating cost are now we are fixing the rules. So if you can just highlight firstly, what are the line items that you have been able to and also the CAPEX of 530 crore is now, is this the quarterly run rate that we should expect for the balance part of the year because going into Q1 earlier in May, which you just said that, you could probably be doing, I just wanted to understand your thoughts of these two line items?

Anand Vora: Sure. So, Girish on the operating cost basically, there are some manpower cost which has come down, we had planned redundancies and some of the costs compared to last year, same quarter. This year, there has been some redundancies during last year. So, though there is some reduction there. Needless to mention, because of the COVID-19 we did see a drop in travel, travel cost, we also as a management to a conscious decision and we reviewed all our consulting contracts. And, we saw because of the travel restriction none of the consultants could travel or come over to either office or go to the plant. So, we either terminated some of these contracts or the postpone some of these contracts giving them a vacation for three or six months before we restart the consulting assignment. So, I would say and little bit on selling and admin cost were reduced. So, largely these are the four headcounts, account heads under which we saw some good amount of cost reduction. As for CAPEXs, I would not benchmark that this would be the, we should look at this as a quarterly spend for CAPEXs for the next three quarters. Particularly on the intangibles would largely depend on how the agencies are coming back, preparation goes here and there, on the registrations and other things, whether it's going to take time or whether it will happen as per the same pace as in the past year. On manufacturing side, I must say that we are seeing robust demand and we are pretty much out of capacities in most of our plants. So, we have certain but those again, get spread you can't put up a plant in three months it takes time. So, I would say that need not necessarily be that this is the run rate. Typically, we in the fourth quarter always go a bit slow on the CAPEXs to manage our cash flows and our borrowings. So, I would say, therefore that gets spilled over in Q1. So, I wouldn't consider Q1 as a benchmark for the subsequent quarters.

Girish Achhipalia: Sir just last follow up; on the net debt can we expect the gross debt to come down and how do you think about this right now. Going to Q2, Q3 are you expecting any working capital increases in Q2, Q3 and hence you're keeping this, how does one think about it or is it organic opportunities that you are thinking about just wanted your thought, the bandage is quite large?

Anand Vora: No, you're right. Girish you have been tracking us for last so many years and you have seen that at every given opportunity, we have shrunk the balance sheet. We shrunk the balance sheet significantly from 13 to 15, 16 almost. When, we didn't have any growth opportunities or any acquisitions or anything to be done. We just paid off the debt and it's our intent also and as I've been mentioning in the past, our commitment to the rating agencies also to bring down our net debt to 2x. Today we are at about 2.9 billion and we need to bring it to about 2.5, 2.4 billion. So that's our commitment and we are working towards that. Having said that, the reason we are maintaining gross debt and keeping cash is large, it's only and only because of the global pandemic. Today, there is you hardly get any returns on the cash which you have. The good part is also that the cost of borrowing is not significantly higher. So that's the only saving but, it is nowhere incentive to hold cash today. Only because from a return point of view, just because of the risk which we run in case if the world, if the pandemic continues and if there is a significant cash crunch, we don't want to impact our growth story. And that is one of the reasons why we have kept, decided to keep the cash on hand or let me put it differently. If tomorrow the pandemic was to get over or maybe by December, January, everything is back to normal. We will review our position whether we need to hold these sorts of cash or not.

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

Matias Vammalle: As, I am more focused on the debt side. So if you can help me just with a few figures, that I was able to start from the materials but if you can tell me what you were referring to Anand, but what's your current liquidity right now and words about your net debt either in rupees or in dollar terms please.

Anand Vora: Okay, so on the net debt position I will be going in rupees because, typically but feel free to get back to me over email and I will give you all the details in dollar terms also. So, our opening gross debt was at about 2812 crores and our cash and bank balance was 6752 crores, this is as of 1st April 2020. And as of the closing date that as of 30th of June, our gross debt is at 32,587 crores and our cash and bank balance is at 10,462 crores. Therefore, our opening net debt was at 22,060 crores and our closing net debt is at 22,125 crores. I would say largely the delta between the two is the exchange difference between 1st April 31st March and 30th of June. There has been no as such increase in our net debt sales plan.

Moderator: Thank you. The next question is from line of Ritesh Gupta from Ambit Capital. Please go ahead.

Ritesh Gupta: Sir just on the net debt side, because when I look at the presentation, I see an operating cash of about 1886 crores and then I see that CAPEX and working capital is another 1000 odd, 1100 odd crores. So, they should still release about 700 crores of free cash flow and hence should reduce the net debt by as much. So, could you just reconcile where, is it just the exchange difference that has gone away?

Anand Vora: No, exchange impact is about 130 odd crores. We bought back the bonds which you saw about 619 crores which is there and then, CAPEX is 532 crores these are the three large numbers. Cash from operations is 1886 crores and we had a working capital increase, our working capital increase of about 644 crores. So that was largely then there are some other noncurrent assets of 197 and income tax paid of 150 crores. So, we did the acquisition of Laoting Yoloo, which you know which we announced we paid about 44 crores for that. So, those are the big numbers, which I am seeing here, interest paid is about 133 crores.

Ritesh Gupta: And just on the open ad, the question is for Diego actually. So, how soon you can see the revenue impact coming in from that because, I would understand you're bringing in a lot of innovation, attracting them on your distribution platform, which has become a large global one right now. So, what are you exactly doing in this and how soon it can translate into probably more revenue opportunities or new growth areas, over and above agrochemicals also?

Diego Casanello: Yes, that's a good question. Very soon and I'll tell you why, there is an immediate impact, which is in sourcing, a significant amount of work that we have been outsourcing in the past at higher cost. So, there is an actual this has not only cost neutral project, but it's helping us reduce costs. Sometimes we're talking cost, sometimes we're talking CAPEX. But, with the new size of the company, we can reevaluate this make or buy decisions. So, there is an immediate impact from that and in fact, it's part of our synergy tracker. The second impact in the shorter midterm is that we are not only looking at new active ingredients, but we are also looking at how can I bring existing active ingredients from one crop to another or existing active ingredients from one country to another. So, there is a lot of cross selling opportunities with the combined portfolio now, and it allows us to do is very, very quickly in a reduced timeframe to identify those opportunities and go immediately for registrations. And then we have the long term meet to long term opportunity of continuing to develop our bio solutions business, our new active ingredient business and that gives us, we are one of the few companies if not the only company today that is able to play effectively in the postpaid market, but at the same time in the innovation space, we are getting bigger and bigger in that space. And this open center is going to be a significant contributor. It also brought something else, it also allows us to reduce the risk of our R&D expenditures, because what we are doing is trying to detect early in the process, regulatory waste that where we can stop projects before they become laying down. So that is the benefit you will see it's already in the short term, but only in the long term.

Ritesh Gupta: And just a follow up, the new AI that you talked about that partnered for as a typical Japanese research guys, or the research, Japanese chemical companies or which Arysta had good relations with or you're able to track more non- Arysta guys also on your platform?

Diego Casanello: So, it's a variety of partners, we have very strong relationships with Japanese discovery companies, that we work with Chinese discovery companies, we work with a significant number of startups in the US and Latin America. In fact, this R&D center is in a hub that includes a lot of stuff. So, we are co-located with many startups that are even co-working with us in the campus. So, it's a real open innovation process, we also have our own discovery, especially in the BI solutions, space, and re-engineering of molecules in the chemical space. So, it's not dependent on Japan. Japan is an important hub, but we have collaborations with more than 100 partners around the world.

Moderator: Thank You. The next question is from the line of S Ramesh from Nirmal Bang. Please go ahead.

S Ramesh: I just wanted to get your thoughts on why the US or North American sales was down, given that we expected some advance booking there given the good season. And secondly, if we were to look at the European markets, given the kind of strength you've seen in the European markets, has it been captured in your EBITDA margins since European margins are better?

Diego Casanello: So, in North America, if you go back to Q4, we had a growth of Anand correct me if I'm wrong, North of 40% compare year-over-year, Q4-to-Q4. So, there was some pre buying in Q4 in March, it was very clear that COVID is going to disrupt, collateral value chains and there are some customers to position early. So that impacted based on Q1, but the interesting point here, US is going to be a great opportunity for us this year, because we're expecting a very strong herbicide market, we are expecting a strong fungicide market. And we have gained share not only with our combined portfolio now, but we are playing a much bigger role in front of our customers there, but also the fact that we are Indian base manufacturing company. We have plants around the world, that we have a strong foot in India. And obviously customers in North America are looking to hedge their risk right when it comes to the trade uncertainties with China. So, all these together, what you're seeing in Q1 is facing the situation, but overall, you can expect UPL to have a very strong performance in North America this year.

Ritesh Gupta: And what about the European sales?

Diego Casanello: The European, yes Europe is with some exceptions, if you look at the Western Europe has had some dry weather and that impacted some fungicide applications. But our business performed very well, especially in Eastern Europe and in the herbicide business in Western Europe and we believe we're going to see a better number in Europe also in the next couple of quarters. And as you said, properly said as Europe is coming back that is helping a mix overall on the, let say for the company cost higher margins in Europe. Compared to other regions, they're also higher margins in the US compared to other regions.

Ritesh Gupta: And the second part is now there is a report about, regarding the disruption to chemicals supply from China because of the floods in the Yangtze River and one of the products apparently that's impacted is the raw material for Glufosinate. So, do you have any thoughts or update on that?

Diego Casanello: Well, we have a backwards integration and resource in it. So, we are not impacted by this situation. But we are following that, that development there could be some disruption, let's say of supplies from China. Obviously, we are there to capture that opportunity, but we are on the safe side on this respect.

Moderator: Thank you. Next question is from the line of Neha Manpuria from JPMorgan. Please go ahead.

Neha Manpuria: Thank you for taking my question. Diego, my first question is on the revenue synergy number that you've mentioned, if you could give us some color in terms of where you've seen these revenue synergies emerge from a market perspective, and what are the big gaps that we will probably look at fitting to get to that 300 plus million synergy target from the studies?

Diego Casanello: Yes. So, revenue synergies if the difference buckets of opportunities, one is cross selling opportunities. Get give you an idea if we look at Brazil, UPL had a very strong position in the Serato Mato Grosso region, and Arysta had a very strong position on the corps in the South and Central and South Paulo area. So, for example here, there is a cross selling opportunity that has already been reflected in revenue synergies last year and continues this year. Similarly, we look at Europe or if you look at Asia, there are some countries where one legacy you have stronger footprint and is now telling more that they have the portfolio of the other legacy. If you look at Africa, Arysta was number one in Africa, in several of the African countries. And now we're selling UPL legacy products in Africa across the continent. In India UPL, Arysta was the small player and if you look at this quarter, most of the growth is coming from synergies from former Arysta products, if you look at the BioSolutions range for example, also they might decide range. So that is where some of their revenue synergies come, also from moving from B2b to B2C models. There were one of the legacies has been able to see a go to market. So here you can capture margins, you can grow faster and then also there is an aspect of growing the combined portfolio because you're scale matters in this market. You need scale, to be able to reach the farm with a lower cost to serve. And our customers award that with more share of wallet, our loyalty plans become bigger, become more and more appealing to the customers. So, there is that impact also that we see for example in the US very clearly. I hope that answers the question.

Anand Vora: We also have Carlos on the call Carlos you want to add something here on revenue synergies because you were the integration guy.

Carlos Pellicer: Yes. Thank you so much, thank you so much Anand and a pleasure to talk with the investors. It's a more we have moved on the integration. More we have been so happy to see the amount of synergies that we have and many countries that we became number one player like Mexico, like Colombia that our synergies in geographic aspect, even in depth countries, because of the type of crops of each of the company was playing and the type of way that we was doing that. It's an incredible in many countries, how much we have had these geographic, better geographic coverage and in many cases that as Diego said, one of another legacies was B2B, not upbringing in the country, like UPL was not playing much in South Africa and Arysta was really, really strong in South Africa. And this was beneficial for that. Turkey, UPL was very strong in Turkey and Arysta was not there and we have clocked that it see so many examples that we have that have really come with this level that Anand was explaining, say we are already quite closer to this target that we have and for sure we will be going over the target that we have at the beginning. I'd say it's really good impact in the, and this OpenAg approach that we have and the innovation side that we have as Anand and Diego was saying, we are continuously running the synergy on their spectrum of how to launch new products and how to do that and this product that we will launch now in Brazil, that we will launch now in product wise, is a part of that strategy of some of you know about these MMX strategy that have been designed and now it's been progressing and creating a lot of new perspective, it's a really like a completely good perspective that we have, what we saw in and what we are seeing for the next two, three years in terms of synergy capital.

Anand Vora: Thanks, Carlos. Thank you. Go ahead, Neha you had another question?

Neha Manpuria: My second question is on pricing. In the opening comment, there was a mention of price increase has been taken in certain markets. Is it fair to assume that a large part of this will be reflected as we go ahead in the quarter and into the risk that some of these price increases don't stick or are, we confident of these increases input?

Diego Casanello: So, we're increasing prices selectively there where we have impact of exchange rate devaluation. So especially where we are invoicing a local currency in some emerging markets to offset the devaluation and recover our US dollar base price points. I would say you'll find also cases where we want to go for market share. So, it's not only trying to increase prices, but sometimes we're driving volumes with some products. But overall, because I remember this was a discussion in the last quarter and we've got a lot of questions around our ability to close the gap compared to quarter, the Q4 of last year and I told everyone we were feel confident about our ability to get back to our US dollar price points in, especially in Brazil, but also in some other regions. And we are very good on track, even ahead off what we thought now. So, that's a very good signal, it shows us also the pricing power of UPL and we both help our margins this year. The important thing is also to, now we are reviewing our entire portfolio, especially there where we have differentiated products. Things are looking at the value of those products, generate in terms of yield increase, the quality improvements, and here and there reviewing opportunity to increase prices here and there. But it's a mixed bag, there's always a mixed bag. Our focus is on expanding EBITDA margins over time and growing above the market, above the market with intention to continue to basically become one of the top three companies in the market.

Moderator: Thank you. The next question is from the line of Rahul Veera from Abakkus Asset Management. Please go ahead.

Rahul Veera: So, in the opening comments you mentioned that there's a shift that is happening from Dicamba glyphosate to Glufosinate, it's the volume change is very large sir. And in which region are you seeing this change coming up?

Diego Casanello: So, forgive me if I am not precise in terms of volume because this would be confidential information, but what I can tell you is that it's a significant opportunity because Glufosinate is a big product all around the world. Dicamba has grown significantly in the US and that is a significant market in the US and what we see is the ban of a product called Paraquat in other countries that will be for senate and our brands are being perfect replacement. So, overall, you can expect significant increase of Glufosinate business, and we are also committed to increase our capacity also in the future to accommodate that demand.

Rahul Veera: Okay. And Anand, a small question for you. So, you mentioned that most of our capacities are running at full utilization and, we have largely gone ahead with the employee redundancies. So, considering that assets are working at full utilization, plus some of the fixed overheads are largely in the picture. So, sir our peak EBITDA margins will remain at best 21, 22% in the long run?

Anand Vora: Obvious answer is no right; it must go up. We have always shared with you in the past also that the business model which we follow we can deliver 24 to 25% EBITDA margins over the next two to three years.

Rahul Veera: Right. So, this would largely be coming via price hikes or what would be the lever.

Anand Vora: Diego spoke about the differentiated products we are investing, he spoke about the OpenAg center which we have started so that's one area, we keep reducing our cost. We focus on cost management, more throughput from the existing operation leverage when we keep adding more and more products we don't need to add, we already have a distribution pipeline, it doesn't incremental cost of adding new products or distributing new products is quite insignificant. So, all these will contribute bring in the operating efficiencies and will help us to improve the margin. So, its product mix more focused on high margin products, branded products, operational efficiency, these are the things which will help us to bring keep on improving the EBITDA margins.

Rahul Veera: Sure. And sir in terms of the any other exceptional cost related to the litigations or anything that is pending sir or that related to the integration as well?

Anand Vora: Integration there will be some, we have phases, we had talked about some plant closures so, those will come. Obviously, town closures take some time you must take the approval of the workers body and other things. So, all those things take some time. So, some of those will come during this year also. And in terms of we are talking about the thing we have fully provided for the litigation costs. So, we don't expect anything there, if at all probably we can see some credits coming through in case, because we are contesting some of the penalties and other things which have been imposed on us, part of the litigation.

Moderator: Thank you. The next question is from the line of Madhav Marda from Fidelity Investment. Please go ahead.

Madhav Marda: Just one, two question from my side. On the interest cost we've given that global interest cost was coming down should we not be seeing a decent impact on our finances cost in the coming year?

Anand Vora: No, when you're taking bonds and other things, these are all fixed LIBOR. We will see some reduction coming through in case of our acquisition loan, which is a part of it. We are swapped into as into euros and yen. Where we have taken a fixed LIBOR in case of euro. But in case of dollar, we have open LIBOR. So, there we could skip, we will get the benefit of the LIBOR reduction. So, bonds, you won't be getting any reduction but for the acquisition loan, there is an opportunity to reduce cost. Plus, our working capital lines, we do, we have borrowed last year, short term borrowings at almost zero, not almost zero at zero rate in euro zone. So, we continue to evaluate those opportunities and as and when we get those opportunities we do take, tap these opportunities of boring at zero or lower cost of interest.

Madhav Marda: Got it. And just one other question only OpenAg platform or the R&D center which we have started. Is there any other competitor in the market who is doing a similar sort of strategy like there are other post pretend player globally?

Anand Vora: Diego, if you permit, we have Mr. Shroff also on the line maybe he can say a few words. I leave it to between Diego and Shroff.

Jai Shroff: I am sure many people will follow our strategy, the OpenAg approach is being followed by many, many companies and they understand for innovation is the way to go. So, we will see some other people trying to follow. We are ahead of the curve to that extent. I don't know about other companies of our size. There are not many, so you don't know what they will do. But everybody is becoming a little more agile watching UPL.

Madhav Marda: Okay. And if I do understand the strategy, right do you have to global scale distribution and manufacturing and the OpenAg platform helps us connect to the innovators who don't have that, but they have sort of the R&D initial. So that's how the synergy comes about, that's the way to think about, it?

Jai Shroff: Yes, there are agriculture is a huge, it's not only crop input, there are so many technologies, which we need to bring, to bring farmer productivity and the idea is to evaluate so many different technologies which are being developed and exist on traditionally agrochemical companies just focused on herbicides, insecticides, fungicides. Bio products is the new market and all the sustainability related investments and technologies are a new thing and we believe that the value for farmers who want to sustainable agriculture platform using some of these technologies will be increased because you will see, most food companies have to certify that their food is sustainable in the next five years, you will see that food quality will be taken for granted and but the origin and traceability of food and sustainability of food is going to be the important criteria and farmers who are able to adapt to technologies which make them the food systems more sustainable will benefit from better pricing or even access to markets.

Moderator: Thank you. Ladies and gentlemen, in the interest of time we will take questions from two participants. The next question is from the line of Varshit Shah from Emkay Global. Please go ahead.

Varshit Shah: Sir my question is around specially for Diego around the inventory in the Latin America market. So, are you running slightly high inventories since the sales have been deferred to Q2 and is there a risk that any adverse agronomical conditions could sort of result in a higher inventory level? So that's my key question.

Diego Casanello: Yes, the postponement in Latin America is not related to inventory levels. In fact, our inventories are performing well overall channel. So, the reason for the postponement is related to the fact that as we are increasing prices, the industry continues to increase prices, the point of purchase of customers get closer to the time of application. So, there is a natural delay if you want off the purchase decisions of customers. So, we are seeing actually the business picking up as we speak and we have already a significant amount of orders in hands that is what gives us the confidence to tell you that it's only a facing issue, but we should, we are not concerned about our levels of inventory in Latin America.

Varshit Shah: Sure. And my last question is on the US China trade war, so you mentioned that you've benefiting there as customers look to diversify supplies away from China, to Indian manufacturers and one of the fallout of the same is actually hired on purchases by China from Latin American market. So is that a win-win for you on both sides, if I read it correctly, that good business in Latin America and the higher volume share in the North American market?

Diego Casanello: It is a win-win indeed, because we have a strong participation in Latin America, Brazil in the West of Latin America, and at the same time we have this impact in North America. But I would say it's only seconds after the fact that UPL is a welcome hedge let's say to the situation, the consolidation that we have seen in the market in the last couple of years. If you put yourself in the shoes of some of our distributors and customers, they need UPL in their portfolio to maintain that balance in front of much larger companies. So, I would say these two things are helping gain market share. When we believe that's a sustainable trend.

Moderator: Thank you. We take the last question from line of Prashant Nair from City group. Please go ahead.

Prashant Nair: This is one question on the P&L side. So, with respect to your margins, can you give us a sense of the, so on the gross margin improvement that we have seen this year, for this quarter. How much is geographic mix driven and how much has come from efficiency, currency, et cetera. Just a rough ballpark?

Anand Vora: Well, there has been some good contribution margins coming out of India as this is the first quarter in many years where India is the largest contributor to the overall revenues, and we are seeing very good margins in India. So, it's a bit of geography mix also and mix of product as Diego has been answering on several other questions ask that, we are focusing on high margin products. As of this year because of the global pandemic we put our heads together and as senior management we decided that let's go for margins over volume and make sure that we end up with good margins because that would ensure good cash flows to help us to reduce our debt or to meet our debt target of the net debt-to-EBITDA of 2x. So, there is a very, very high level of focus on high margin products. Of course, geographies like India with this year with because of excellent monsoon, and the supply chain has also been very supportive and focusing to provide as much as possible products to India region to meet the demand. At the same time, as I shared with you, we are working hard on the working capital to see how we can reduce our net working capital to generate extra cash. So that's the purpose Prashant.

Prashant Nair: Sure. And just final question on the overhead side. So, there has been a reduction this quarter again, same question. So, part of this would obviously be because of the lockdown and maybe reduction in travel and other expenses. So, do we see this line going back up and how much higher vis-à-vis this quarter levels would the normalized run rate be?

Anand Vora: Prashant, you have been following the company long enough and you know we are always focused on seeing how we can bring in efficiency, how we can reduce costs. This pandemic there has been a lot of learning, Diego not on this call, there was some other discussion Diego was sharing that, the global leadership has lost count of how many virtual conferences we have been attending over the last, I would say a month, month and a half. And everything is working fine, people are, we have had conferences with almost 2000 plus people on the call and it's been doing well. So, there are some learning's from this and learning's in the sense that we have managed our costs well and we will continue to bring in more and more cost efficiency. As, I shared with you even on the synergy side we have crossed close to 120 million in cost synergies, but our run rate is to achieve by end of the year 200 million, so we are on track for that also. So, that's something cost bringing in cost efficiency is something which is very much part of UPL, and we strive hard to see how we can keep our costs position down.

Moderator: Thank you. I now hand the conference over to Mr. Anand Vora for closing comments.

Anand Vora: Thank you, everybody. Thank you very much for joining us on this call. If you have any follow up questions, please reach out to either Radhika or me. You can drop us a mail or you can give us a call and we'll be happy to answer that. Thank you very much all of you all, stay safe, stay healthy. Thank you.

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