"UPL Limited
Q1 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the UPL Limited Earnings Q1 FY2020 Conference Call, hosted by IDFC Securities. 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 entering "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitin Agarwal from IDFC Securities. Thank you and over to you, Sir!

Nitin Agarwal: Thanks Melissa. Good afternoon everyone and a very warm welcome to UPL Limited Q1 FY2020 post results earnings call hosted by IFDC Securities. On the call today, we have representing UPL management, Mr. Jai Shroff, Global Chief Executive Officer, Mr. Diego Casanello, COO Crop Protection, Mr. Rajendra Darak, Group Chief Financial Officer, Mr. Anand Vora, Global Chief Financial Officer, and Mr. Ashish Narkar, Senior General Manager Finance. I hand over call to the UPL team to take it from here. Please go ahead Sir!

Anand Vora: Thank you very much Nitin. Good evening all of you. First let me start off by saying - due to some technical hitch, we were delayed by about 10 minutes, apologies for the same. Thank you for joining us on the call and just for information, the Investor presentation has been uploaded on our website. We also got to know there were some delays in uploading on the BSE website, but now we have been informed that the results have been uploaded on the BSE website; as well as the Investor presentation are there on our company's website. With this I will start with the financial results. We are going to slightly modify the format. I will just give you high level numbers first and then I will handover to Mr. Diego who will take you through the business performance giving details about the growth, the industry update, as well as region wise breakup of how we have performed, but the high level numbers are, we are seeing a revenue growth for the quarter of 7% over that of the previous year. Here, the previous numbers are the numbers, which have been adjusted by including numbers for Arysta, which were published numbers. EBITDA is showing a growth of 11% over that of the previous year and cash from operations for the quarter is Rs.469 Crores with this I will handover to Mr. Diego to take you through the detailed revenue numbers and detail of the business performance by region and then I will take you through the financial numbers. Over to you Diego!

Diego Casanello: Thanks Anand. Good afternoon everyone. In the first quarter we are very pleased to have reported a strong growth of 7% in revenue and as Anand said 11% growth in EBITDA year-over-year on a pro forma basis. Despite the softness in markets particularly in Europe, in India and North America, this is really a remarkable performance because the new team managed to do this in what was the first full quarter after closing of the transaction. I believe that this performance demonstrates the strength of the new team, our business model and the capabilities of both legacies brought to the combined entity. Not only that, it also shows the success of our integration efforts that we have conducted in record time with the strongest focus on our customers and our people.

We have experienced a positive response from our customers across key geographies and many of them are rewarding us with a larger share of their business. The reason for this momentum is; first of all our ability to now offer complete crop solutions across a wide range of crops, including a large portfolio of innovative products. Second, the many cross-selling opportunities, as we combine the customer base of both legacies. Third, also the fact that many customers of see UPL as one of the most agile companies in an industry that has consolidated and last but not the least we see customers looking at UPL as a reliable partner in times of uncertainty especially as China manufacturers continue to face supply the challenges.

So, our business in Latin America including Brazil showed a strong performance across large parts of the portfolio with revenue growth of 25%, particularly in our row crops business, with herbicides and insecticides at the forefront. Good agronomic conditions and relatively stable exchange rate has also created tailwinds. We have received excellent news in Brazil from the regulatory authorities that have put our new Asian rust fungicide – Fluarys - in the priority registration list. This will significantly reduce the expected time to market for this product that has shown its excellent efficacy against this pathogen; it is very, very difficult pathogen, which represents today the largest fungicide market in the world.

We are very satisfied with the excellent results this quarter in North America, that grew 6% year-over-year, a market that has been strongly impacted by floods in the Mid West where we estimate that around 10 million acres, particularly in corn and soy, will not be planted or have been significantly affected. In this region our team has managed to gain market share in most key accounts. Our combined portfolio has proven to fit very well in the North American market and customer are seeing UPL as a welcome hedge to the uncertainties created by the supply situation in China, the US China trade war and the consolidation of other multinationals.

Despite a slight decline of 3% in revenue our team in Europe managed to gain market share in a very challenging environment. Farmers have experienced drought and a significant heat wave delaying planting in Eastern Europe and reducing the number of herbicides and fungicide applications in the Western European area. We have seen, however, double digit growth in the Mediterranean sub region. It continues to be a growth driver for our business.

In India, after a good start to the season and despite price increases in select products the irregular monsoon led to a delay in applications. Revenues declined by 8% year-over-year especially driven by lower demand for nonselective herbicides. Regardless of this delay, we remain confident about our ability to deliver growth in India for the full year.

Last but not least our business in West and South Africa, as well as in parts of Asia, continue to deliver growth. Sales in rest of the world has increased 7% year-over-year. We are well positioned to continue along this path in the coming years, growing our large presence in Africa and leveraging our expertise in the emerging markets.

I would like to spend some time just describing the progress we are making on integration. We are well on track to deliver our cost and revenue synergy guidance for the year.

Our cross-selling initiatives, improved go-to- market strategies and a larger sales force have helped UPL outperform the market this quarter, contributing to revenue synergies. After having announced the new organization we have now line of sight on our planned personnel cost synergies for the year, and we are gaining traction with SG&A savings in areas like office consolidation, warehousing and many more.

More than 70% of revenue is already operating under one single ERP and as we transition to a single system, we are able to standardize and simplify processes enabling more synergy opportunities. This quarter, we introduced new sales incentive plan for our sales force. This plan will help promote revenue growth and margin focus, as well as strong emphasis on collection and working capital management.

In addition, we have conducted numerous sales force training sessions to prepare our teams to sell the combined portfolio. Furthermore, in May, we presented internally and externally our new UPL OpenAg branding, purpose and values. This was a great time for everyone at UPL. You could sense the energy and the motivation for the entire team as we conducted several town halls across many geographies and feedback from customers and partners have been very positive. I think, results speak more than words. We are very glad to demonstrate with this quarter's performance, the resilience and the momentum of UPLs business and confirm our guidance for the full year. With a strong belief in our OpenAg purpose we will continue our relentless efforts to position UPL as a global leader in providing solutions to make food more sustainable for all. Thank you very much.

Anand Vora: Thanks Diego. Now I will take you through the financial results a bit more in detail. The financial results, we would first have the comparison with the combined Arysta and UPL numbers for the quarter, so we call these the pro forma results and for the pro forma results for the quarter the sales have been Rs.7906 Crores versus previous year same quarter Rs.7406 Crores, a 7% growth over that of the previous year. Contribution margin was at 43% to sales, and they are more or less at the same levels as that of the previous year's same quarter. In absolute terms, a growth of 7% in the contribution margin. At the EBITDA level, as a percentage to sales was 21%, 100 bps improvement over that of the previous year, same quarter and in absolute terms, a growth of 11% over that of the previous year.

As you know, we have to make the adjustment for the inventory, which we acquired as a part of the acquisition of Arysta. And therefore, there is a PPA adjustment that is the purchase price allocation adjustment on inventory of Rs.412 Crores. This has been adjusted. And therefore, the reported numbers in terms of contribution margin to the extent of Rs.412 Crores there will be a reduction in the contribution margin and in the EBITDA. The reported numbers for the previous year's first quarter are only UPL numbers. When comparing those Q1 numbers with the Q1 for the current quarter, the revenues of Rs.7906 Crores shows a 91% growth over that of the previous year, which was - just UPL number, that is Rs.4134 Crores - a 91% growth over that of the previous year same quarter.

EBITDA at Rs.1,659 Crores, which is 21% of sales shows a 100 basis point improvement over that of the previous year same quarter. And based on the reported numbers of the previous year quarter, there is a 96% jump in the EBITDA. Profit before tax at Rs.867 Crores is 11% of sales and as compared to the same quarter last year was Rs.570 Crores and showing a growth of 52%. Net profit for the year stands at Rs. 178 Crores, after adjusting for income from associate companies and joint ventures, minority interests of Rs.38 Crores and exceptional items of Rs.72 Crores. These exceptional items, as you know, are largely pertaining to the integration cost and the redundancy costs associated with the integration of two companies. This was Rs.72 Crores for the quarter. After adjusting for all this, the net profit stands at Rs.572 Crores as compared to Rs.510 Crores for the same quarter in the previous year. This shows a growth of 12%, as compared to that of the previous year. If one has to use this adjusted net profit before PPA adjustment, then the EPS for the quarter stands at Rs.7.49 versus the adjusted EPS for the previous year same quarter at Rs.6.68.

Diego shared with you the breakup of revenue and the growth in each of the regions. I will just quickly repeat the same. We have India contributing 15% to the total revenue for the quarter, as shared India revenues are down by 8%, Latin America constitutes 30% of the total revenue and revenues for Latin America are up by 25% over that of the previous year. Europe revenues contribute 21% of the total revenue for the quarter. The revenue there has been lower by 3% over that of the previous year, North America revenues constitutes 15% of the total revenue for the quarter, showing a growth of 6% over that of the previous year and the rest of the world revenues are 19% of the total revenue for the quarter, showing a growth of 7% over that of the previous year.

Moving onto working capital. We have seen the inventories are marginally higher. Last year same quarter inventories were at 98 days. This year, we are seeing inventories at 107 days, however our receivables are down from 136 days in the previous year same quarter to 122 days for this year's quarter. So there is a reduction of 14 days in receivables, and payables last year were 117 days. This year, they are at 113 days. Net working capital, therefore, we are seeing a reduction of two days from 117 days to 115 days.

Just an update on the integration. We had set ourselves a target for the full year, and I am going to share the integration numbers, both in terms of revenues, as well as the cost reduction synergies. In terms of revenue, we had set ourselves a goal of delivering about $100 million of incremental revenues for the full year. Against that, for the Q1, we have delivered $20 million revenues. These are additional revenues due to the synergies between the two companies. And in terms of cost synergies, we had set ourselves a goal of $80 million of cost synergies for the full year. Against that, we have delivered $18.6 million. $18.6 million is what is actually credited to the P&L. And if one has to take it on a run rate basis, then we are having a run rate of almost about $143 million. So we are quite optimistic of delivering $80 million for the full year.

Net debt as of June 2019, stands at Rs.27,049 Crores, and the gross debt for the June quarter are Rs.29,247 Crores. This is, of course, net debt and gross debt as of June 30, 2019. With this, we end our results update, and we will be happy to take questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Tarun Lakhotia from Kotak Securities. Please go ahead.

Tarun Lakhotia: Thanks for taking my question. I have a couple of them. On the first one, you mentioned about the revenue synergies and the cost synergies which you have realized so far. Now if I just look at this number for, say, the Q1 of this year, $18.6 million plus another 21% on $20 million of revenue, you would have earned EBITDA of somewhere around $22 or $23 million purely because of the synergies, right, which is roughly around Rs.160 Crores. And if I look at your comparable numbers for last year and this year, your EBITDA including Arysta has improved by Rs.170 Crores on an Y-o-Y basis to 1659 versus 1491. So can we say the underlying growth was practically you know nil and all of the growth which you are seeing right now is because of synergy benefit. Is that correct observation?

Anand Vora: I would not – it is not plain mathematics, and we would not like to look at it that way because, as Diego mentioned at the beginning of the call, we are now working as one company. And we have set ourselves this goal of delivering certain growth rates of about 8% to 10% in revenue growth and a reduction of $0.5 billion in debt and EBITDA improvement considering the revenue as well as the cost synergies. And as we are operating as one company, the results have to be looked in - after considering the synergies, which we have set ourselves in terms of both revenue and in terms of costs.

Tarun Lakhotia: No, fair enough. What we are trying to understand is that is the organic growth in the markets a bit on the weaker side in this quarter, which is what has resulted in that underlying performance? But anyway, I take your point on that. The second question which I have is that you are mentioning that adjusted EPS before the PPA adjustment is Rs.7.49, or I think that is basically the Rs.572 Crores of net profit, which you have reported, right?

Anand Vora: That is right.

Tarun Lakhotia: So there, at least the Rs.150 Crores of amortization, depreciation, which you have right that is a recurring thing which you will be accounting. The Rs.412 Crores is a one-off, which probably we may remove that, but Rs.150 Crores is something, which will be an ongoing provision in your P&L, which means your net profits on a like-for-like basis may have been Rs.570

Crores minus whatever net of tax gains, so roughly around Rs.450 Crores odd. So is that, again, the right way to look at it or not?

Anand Vora: No. Because you see, this was not there in the last year's same quarter. So that is the reason why we are backing it off. You are right, in the future quarters, you will have it, but then in the future quarters once we have the Arysta numbers also, then it would be a like-to-like comparison. So just now when you are comparing it, you will have to back it off. Otherwise, you are not comparing apple-to-apple.

Tarun Lakhotia: No, but that is fair enough. Only thing, which I am trying to arrive at is the recurring number for the company, the combined entities. So in the recurring number, this Rs.150 Crores has to be included, while Rs.412 Crores, which is a one-off. And maybe even the Rs.72 Crores, the exceptional costs is something which you can remove, right?

Anand Vora: That is right.

Tarun Lakhotia: Fair enough. Thank you. Thanks a lot

Anand Vora: Just one minute, Diego has a point to make on the first point, which you asked on the performance.

Diego Casanello: Yes, on the question on the revenue performance. I think you have to look at the numbers in comparison with the reports of our peers, right? Because that gives you an idea of how we are outperforming the market in the underlying, call it, market share gain that we're having. Obviously, it is the market that is, here and there, impacted by weather. But when weather recovers, you want to have the market share in your pocket, right? And I think in light of the market decline in the U.S. that we expect to be more than 10% in this quarter. And in Europe, I mean, delivering a growth of 7% shows the underlying strength of the business.

Tarun Lakhotia: No, no, absolutely, Diego. That is what I am trying to understand. But in general, there has been weakness in the market, and you have definitely outperformed, but at least underlying growth for you also has taken somewhat a knock because of the weak environment. Thank you.

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

Sonali Salgaonkar: Thank you for the opportunity. Sir, my first question is, at this point, after the first quarter, where we have integrated Arysta, do we maintain our guidance for the full year in terms of revenue, EBITDA, capex, debt reduction, etc, that we gave at the start of the year?

Diego Casanello: So yes, we will maintain the guidance, and we are well positioned to deliver what we said originally.

Sonali Salgaonkar: Sure. Sir, what is the tax rate for the full year that we should look at this combined entity now?

Anand Vora: I think we have guided for about 18% to 20%, and we will maintain that guidance as of now.

Sonali Salgaonkar: Got it. Sir, my second question was with regard to this adjustment for PPA, I mean, in terms of inventory, etc. For how many quarters do we expect that to recur in our financials?

Anand Vora: As I mentioned the PPA adjustment as far as the inventory is concerned, this is the last quarter. I mean, we have sold off most of the inventories. There is nothing left. However, the adjustment on the amortization and depreciation will continue.

Sonali Salgaonkar: Sure. Sir, for depreciation, is this steady state rate that we expect for the coming quarters as well because in the note of the financials that you have mentioned this is as per the Ind-AS new accounting?

Anand Vora: That is true, but we are still awaiting our purchase price allocation report. So these are provisional numbers as of now.

Sonali Salgaonkar: Sure. Sir, and lastly on the global channel inventories, could we get an update as to how is the demand-supply scenario globally?

Diego Casanello: So in general, I think there are two things. First, we are building inventory to sustain the growth in the following quarter. But also, the situation in Europe with the delay in planting, particularly in Eastern Europe, is impacting inventories in-house. But overall, let us say, we are very focused on our working capital target for the year, and we feel well about delivering that.

Sonali Salgaonkar: That is it from my side. Thank you.

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

Vishnu Kumar: Very good evening and thanks for your time. I wanted to understand the current quarter, how is the scenario specifically in U.S. and European markets? Is it still improving? Or are we seeing any further decline in the growth rates for the industry?

Diego Casanello: So in the U.S., as I said also in the remarks, it has been impacted by the flux, right, that started in April-May and sustained over June and that has impacted our 10 million acres, especially soy and corn. And I would say the trade-off to that was that you see prices of corn and soy improving significantly compared to that level in April. And that is helping offset some of that softness moving forward, not only in North America, but also in South America. In Europe, it is different. It is more of a weather event that partially has caused the delay, but it is a mixed bag, right? So, in Southern Europe, we see very good momentum. We are actually growing in double-digit in that area. But I would say, in Europe, if you ask me, in the first quarter, it was a tough market condition compared to what we have seen last year. Overall, there is a little bit of uncertainty from the China supply situation and the trade uncertainties between the U.S. and China. And we are using that window, obviously, to sit down with our customers and discuss not only short-term opportunity, but also supply opportunities in the long term, right, for the next two to three years.

Vishnu Kumar: Got it. Just in case, just follow-up on the previous caller question. In terms of the inventory buildup, let us say, both Europe and U.S., kind of degrows anywhere between 5% and 10%. Then the inventory buildup, do we see issues for the global agrochemical markets, say, in the second half of the calendar year or for the next year? Do we see an inventory buildup situation impacting the overall market next year?

Diego Casanello: I do not see an impact on UPL. I think we have a very good, let us say, hold on our inventory situation, and we are not concerned about that. I mean, you will have, in certain areas in the market, when it comes to industry channel inventories. For example, in herbicides in the U.S. and fungicides in Europe, you might find higher industry channel inventories. And some of our competitors are struggling with that situation. But again, it is a mixed bag. I do not see this as being a major industry phenomenon, as we have seen eventually in 2017, for example. I think it is rather under control at this point in time.

Vishnu Kumar: Got it and just one final question. What was the capex this quarter, if you could just give that number?

Anand Vora: Sure. The total capex for this quarter was Rs.400 Crores.

Vishnu Kumar: Thanks a lot Sir. I will come back in the queue.

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

S. Ramesh: Good evening gentlemen, thank you very much for the call. In terms of the cost synergies it is a current run rate of $143 million, what is the kind of numbers we should take for FY2021? And when will you hit that $200 million target?

Diego Casanello: So you are talking about the cost synergies for 2021...?

S. Ramesh: Yes, indeed.

Diego Casanello: For FY2021?

S. Ramesh: Yes, cost synergies.

Diego Casanello: So we have announced a target, and we have not yet guided towards next year, but at the right time, we will give you the exact number, but we do not want, at this point in time, to be more precise on that.

Anand Vora: I think, yes, to further add to what Diego said, we had guided for $200-million-plus cost synergies on a run rate basis over two years. First year, we said we would deliver about $80 million actual and about $120 million on the run rate. And second year, on a run rate basis, we would be in a position to deliver the $200 million. And I think at this stage, as Diego said, I mean, we have not computed what would be the exact cost synergies. But as I mentioned earlier, we are running ahead as far as cost synergies are concerned, and we are quite hopeful of delivering what we have indicated when we close the transaction that we would be delivering $200-million-plus cost synergies over a period of two years.

S. Ramesh: And in terms of the interest expenses, how do you expect that to move in the next two years? Would we maintain the kind of run rate we saw in the Q1 or will it come down?

Anand Vora: As we have guided for our debt reduction of $500 million. So you need to build in that debt reduction in interest cost. We have taken several initiatives, as we have shared earlier. We have swapped some of our long-term debt, which was taken at US LIBOR plus 160 bps. We have swapped it into a fixed rate Euro debt up to 1.1 billion, out of the 3 billion debt we have taken. Further, we have swapped about 400 million into Japanese Yen. Again, both these swaps into Euro and Japanese Yen were done because now we have significant revenues coming out of the Euro zone, as well as we have good revenues coming in Japanese Yen. So, both these, we have swapped and that has resulted in a good cost saving and part of it is built up in this quarter numbers, but as we move forward, we will work towards reduction of debt plus see opportunities for further reduction in cost of debt.

S. Ramesh: One final thought, is it possible for you to give us the share across the different categories like herbicides, fungicides and insecticides?

Diego Casanello: Sorry to say, we do not disclose this information for competitive reasons. Sorry for that.

S. Ramesh: If I may just you know, take a little bit of license, there has been some concern about the destruction of the swine population in China and that was causing some concerns about the market for the soya fodder market. And thereby, the chemical use in soya. So, what is your call as we start the Brazil season in October-December? How should we know look at the market for chemicals for soya crop?

Diego Casanello: So there has been an impact of the swine flu situation in terms of demand for soybeans out of China. I have to say that there is a trade-off between that, but also the fact that China is using more soybeans into their feed products. So that is offsetting part of that. I think you can see in the commodity price situation for soybean that has actually recovered significantly, that the situation in North America actually is weighing more on those commodity prices than the swine flu problem in China. And the expectation is that for next year, there is going to be a recovery of that demand in China, not fully offsetting that decline that is right now estimated between 15% and 20% of the entire demand. But it is going to ameliorate the issue on the demand side. So overall, we are not seeing that as a problem, let us say, for the year at this point in time.

Moderator: Thank you. We have the next question from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuriya: My first question is on the $20 million synergies that you mentioned in the first quarter. So, if you could give some color as to where we are seeing these synergies coming? And second, related question, given the environment is tough in certain markets, is there a risk to this $100 million synergy when could this a lot of that be back-end weighted in that case?

Diego Casanello: So, to give you a little bit more color on the revenue synergies. I mean, obviously, we are seeing synergies across the world. But I would say, as an example, in Brazil, legacy UPL used to be more focused on the Cerrado region, while legacy Arysta used to be more focused in the South and with the cooperatives. And now obviously, as we put the two businesses together, we are cross-selling in this extended customer base. Similarly, in the U.S., where the market there or the distribution landscape is very consolidated, but now with the combined portfolio, we have a higher share of wallet and bigger relevance. And we are using this to really have discussions with customers on how to enable change in our share of wallet, becoming a strategic partner to some of those key accounts. So, there are also opportunities that we are seeing in terms of the change of business model because in some countries, the one legacy were doing a B2C business, while the other legacy more of B2B business. And obviously, our overall strategy as a company is to focus on B2C and as we migrate the business to B2C, we expand also our business in those countries. So, these are examples that we see. I do not see a risk at this point in time on our revenue synergy target for the year. I think we are trending very well to that target and we are very focused. The entire team is very focused on delivering that. As you can imagine, if we make a guidance like that, we also leave ourselves some cushion.

Neha Manpuriya: Understood, Sir. My second question is on the cost synergies part of it, given legacy UPL's manufacturing capabilities and Arysta's asset light model. If you could get some update on where we are on the manufacturing or procurement synergies benefit, particularly because I do not see an improvement in your contribution margin on a pro forma basis?

Diego Casanello: Yes, I would say, obviously, the contribution margin, you have to also see the mix of regions, right, with the lower Europe and higher LATAM, you tend to have a different mix. So that is contributing to that, call it, a slight margin decline. But, if you look at in those regions, we are, I think, doing good steps to improving our margins. But it is also true to say that those manufacturing synergies come a bit later than the personnel synergies or other, call it, quick gains that you can obtain because you need to register product sometimes with the new source. And you have also your cycle of purchase, right, where you have stocks in-house, and those margin improvements will then materialize in later quarters.

Neha Manpuriya: Understood. Thank you so much.

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

Aditya Jhavar: Just one small thing. The product that you mentioned that you got a priority list in Brazil, and that is also for the Asian Rust so will it kind of cannibalize on sales or an additional opportunity that we will be able to tap from this product?

Diego Casanello: No. So, the answer is no to that. I mean, we have, today, a position in Asian Rust, but we call it multisite fungicide, which is complementary to this technology that so you need to always apply, call it, this type of product with multisite. So now we will have the full package. And with a product that is performing very, very strongly in Asian Rust. And I think we will have a tremendous portfolio moving forward in Brazil.

Aditya Jhawar: Good. What is the name of the molecule?

Diego Casanello: We do not mention usually the active ingredient, fluindapyr is the name of the active ingredient and Fluarys is the name of the trademark.

Aditya Jhavar: Okay. And are you seeing any pricing pressure on Mancozeb?

Diego Casanello: Not significant. I mean, normally it is a mixed bag. In general, no.

Aditya Jhavar: Okay, okay. So actually, this quarter is pretty important from Indian context and if my understanding is correct, you guys mentioned that for a full year basis despite a decline in this quarter, you will be still able to grow India business. Is that correct?

Diego Casanello: That is correct at this point in time. So, we see now the north, especially in the cotton region, we have a good momentum, there were good rains, and that is an important market for us. In the South, it is a bit less, I mean, less rains. But I would say, overall, the conditions are better than last year.

Aditya Jhavar: Okay. And final question is, in the press release, you have mentioned about the legal case. Is that for a product for Arysta? And what could be the size of this specific molecule?

Aditya Jhavar: I mean, there is a litigation that you talked about in the press release of a U.S. subsidiary.

Anand Vora: Yes, the U.S. subsidiary. So that is for one of our Decco range of products.

Aditya Jhavar: Okay. So, what could be the potential size of this product?

Anand Vora: We are not in a position to ascertain that as of now, what is the potential size and other things. But there is some litigation going on, and we are also trying to get some color as to in terms of numbers and other things. But at this stage, based on the information available, there is very little that we know.

Aditya Jhavar: Okay, no problem. Thanks a lot, and thanks for sharing on a quarterly basis the synergy that we are accruing on revenue and cost front. I appreciate that.

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

Sumant Kumar: My question is regarding Arysta. So, when we see the USD revenue of Arysta in Q1 FY2019 was $521 million, and EBITDA was $109 million so in constant currency, in U.S. dollar, margin was 20.9%. So, when we calculate in INR term or whatever number you have given, the margin is coming around 19.7%. So, what is the adjustment of the currency? And any other things you have done in the number in Q1 FY2019 whatever you have reported?

Anand Vora: In Q1 FY2019, we have just basically reported regrouped the numbers to reflect the correct, so that we can compare it like-to-like. It is just regrouping. That is nothing beyond on that.

Sumant Kumar: Okay. So around Rs.224 Crores adjustment was there in the numbers as per my calculations.

Anand Vora: I do not know. But Sumant we can discuss that, you can call me later, and we can go through that. That is not a problem.

Sumant Kumar: Okay. And also, it looks when we compare the Arysta numbers; it looks like there is a muted performance in margin front as well as in the sales front. So, can you throw some light on that? How is the performance in Arysta?

Anand Vora: No, as I said; now we work as one company. And the sales team is selling both the products. It is the one same team selling both the products. I think the point which Diego rightly made to one of the earlier questions was, while you are seeing a muted performance, it is largely because there has been a slight decline in the European sales and, European margins are much better than our average margins. So, I think a large part is attributed to that decline rather than actually any muted performance either for Arysta range of products or UPL set of products.

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

Ritesh Gupta: Just wanted to check versus the last quarter, the March-end debt versus June-end debt, is there increase in the debt because like I heard a number of $3.7 billion of debt? And if we translate the numbers, you have given that translates to more like $3.95 billion of debt. So, is there an increase in debt on a Q-o-Q basis?

Anand Vora: Yes, there is an increase in debt by about Rs.795 Crores, and that largely a part of it is towards working capital. We got $90 million of additional working capital compared to what we had estimated in our $4.2 billion when we acquired Arysta, so there was an incremental payout to Arysta for that additional working capital of $90 million. So that is one important contributor. As we also mentioned about two quarters back, we closed the transaction for Bioquim, which is a small acquisition in Costa Rica, which gives us a dominant position in Costa Rican markets, and we closed that. And so that was roughly in the range of about $13 million to $14 million payout towards that. So those were two which had an impact on the increase in debt.

Ritesh Gupta: But earlier there will be operating cash flow also, which probably would have contributed to the incremental cash flow, right? So...?

Anand Vora: So, as I mentioned at the beginning, we had operating cash flow of about Rs.469 Crores. This is after adjusting for working capital. So, when you back this off, there is Rs.400 Crores of your capex, which we spent. But as I mentioned, we are still committed to reducing the debt by $500 million by the end of the year. That is our commitment to the rating agencies, and we maintain that. And all of us are working towards seeing how we reduce this debt.

Ritesh Gupta: Got it. And just on the broader level commentary, I mean, two things that I want to check with you in terms of the erstwhile Arysta's relationship with Japanese guys. I mean, what is the management thinking? What sort of the steps you are taking to leverage on that? Is there some new molecule, innovative molecules that are coming into UPL's fold? And secondly, on the manufacturing side as well. I mean, I see you guys outsourcing a lot more to Indian guys also. So I see there are some of them are public domains, some of them are not. But in general, I see you guys kind of giving contract manufacturing to a lot of Indian vendors. So, is there a change in the strategy where probably you are looking to integrate more with UPL's assets and now you yourselves are actually doing more on the outsourcing side? So, if you could just explain the two pieces?

Diego Casanello: Yes. So, on the relationship with Japanese companies. I mean, as you recall, Arysta used to be a Japanese company and it started as a company out of Japan. So, they have very, very strong relationship in Japan, but both legacies had strong relationships in Japan. I spent a couple of days already throughout the year and a couple of weeks in Japan, making sure that we clarify any question of our partners. And I have to say that I am very, very optimistic about our ability not only to continue with those relationships, but actually to expand those relationships. And we are in the process, as we speak, on negotiating and working on several opportunities with them that we will be announcing as time goes by. So, it is very rewarding because actually also those relationships were complementary. So, the relationships that UPL had was not necessarily overlapping with the J-makers or Japanese manufacturers as we as Arysta used to have.

I think on the manufacturing side, we obviously predominantly have a, call it, a no manufacturing position, but we also need to focus as a company because we now have much larger portfolio. And we will want to make sure that we leverage… we produce being the cost leaders. And if we feel like some partners can do a better job than we do, we will also seek their support. So, we are rebalancing our strategy right now, but it will be always a combination of in-house production and outsourcing of some molecules.

Jai Shroff: With the growth rate we are looking at, we are actively looking to partner with people for certain parts, intermediates, raw material manufacturing, that is something which we have always been doing. But it is just I mean; the excitement around the Indian chemical industry is creating awareness of that and the size of our sourcing for the portfolio is creating a significant supply. We are becoming big part of their purchasing. Also, the disruption in China, which is also causing some more investment in India in terms of developing alternative suppliers for us here for some of the key strategic raw materials, which we are buying.

Ritesh Gupta: Got it. And the last question from my side. On the specialty chemical side, you have a separate division and a separate CEO. I mean, what are you guys doing on that particular side of the business? Is it too early to talk about that? Or I mean, is there a strategy, which is there?

Jai Shroff: So, I mean, it is something which we announced a few years ago in our meeting. A lot of our raw materials and manufacturing capacity, we make intermediates for other applications. So primarily, the strategy continues.

We are building a much more backward integrated platform for our agrochemicals. While we are doing the backward integration, we will have opportunities to develop intermediates for other industries like pharmaceutical industry and other chemical industries. So that business is growing nicely, but it is still primarily based on feedstocks, which are primarily used for our primary industry, which is the chemical industry. So, we are just exploiting other things. We believe that that business will continue to grow.

Ritesh Gupta: Sure. Thank you, Sir.

Moderator: Thank you. We have the next question from the line of Abhijeet Akella from IIFL. Please go ahead.

Abhijeet Akella: So first, just wondering if you could help us out a little bit with the expected seasonality of the business, given that we do not really have a full quarter history for the combined entity? In the context of the EBITDA guidance you've given last quarter, how should we sort of think about let us say the quarter-on-quarter EBITDA progression during the year?

Diego Casanello: Yes. I think, I mean, instead of talking quarter-by-quarter maybe first half, second half. I think that's more prudent because, obviously, there is certain seasonality within the quarter, sometimes. But I would say you can expect a stronger second half compared to the first half because especially Arysta used to have the closing because of, call it, a fiscal year closing. So, December was an important month, and we at UPL used to have full year closing in March. So, both legacies have strong Q3s and Q4s. So, you can expect a larger share of both revenue and EBITDA in the second half.

Anand Vora: Roughly, Abhijeet 55%, 60% would come in the second half, and the balance of course in the first.

Abhijeet Akella: Okay, right. That is helpful. And you are standing by your full year EBITDA guidance of 16% to 20% growth, right over Rs. 6,900 Crores last year?

Anand Vora: That is right.

Abhijeet Akella: Just a clarification on this, IndAS 116, if you could just help us understand how much was the EBITDA benefit from that this quarter?

Anand Vora: Roughly about overall hit to the P&L at the bottom line is about Rs.7 Crores and because of IndAS 116, and EBITDA improvement is roughly about Rs.40 Crores.

Abhijeet Akella: Got it. And in your PPT, the other income on slide 5 Is shown as a negative Rs.33 Crores, whereas in the reported P&L, it is shown as positive Rs.39 Crores. So, I am just trying to understand what the difference is there?

Anand Vora: Sorry, can you repeat your question, in our PPT and vis-à-vis, you are looking at the financial results?

Abhijeet Akella: Yes. So PPT shows minus Rs.33 Crores as other income?

Anand Vora: Yes.

Abhijeet Akella: So, whereas the result shows plus Rs.39 Crores.

Anand Vora: Yes, because the foreign exchange impact is shown separately. If you see, we have exchange difference net on trade receivables and payables in the results, which is Rs.6 Crores. So Rs.39 Crores minus 6 is Rs.33 Crores and that is what we have shown as other income. You got it?

Abhijeet Akella: Rs.33 Crores is an income number. Sorry, my mistake.

Anand Vora: Yes.

Abhijeet Akella: Okay, understood. Okay, great. And lastly, the integration cost that you had talked about last quarter was about $60 million to $80 million for the year. This quarter, you have shown only about Rs.72 Crores, so what is your expectation now for the full year?

Anand Vora: We are maintaining the same.

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

Girish Acchipalia: This $60 million to $80 million is including the last year's impact, is not it?

Anand Vora: That is right.

Girish Achhipalia: Yes. So basically, it is a total integration. And secondly is I am not sure about the cash flow, so Rs.795 Crores is the Q-on-Q increase in net debt. Now, you mentioned a couple of numbers there. And if I look at your note #2 and note #9, the numbers are a little different there. So just wanted to understand, you said $90 million, I assume, is on account of working capital. And the note #2 says $22 million is the incremental payout to Arysta. So, are these two numbers separate and both have to be added? Or they are one in the same and what is the issue here? Even on the acquisition, if you can just help because you said $13 million, $14 million is the payout, but here the note that says $23 million? And...

Anand Vora: Yes, okay. Go ahead.

Girish Achhipalia: Yes. So, you finish the cash flow question and then we can...

Anand Vora: The $23 million minus $10 million, $10 million is with retention money, which we have kept based on certain performances, which they have to do since we are referring to the quarter. As of the quarter, we have paid only

$13 million to them. So that is one difference. And I am just referring to the note, which you are referring to.

Rajendra Darak: I think Girish this was basically the balance that was already provided because when we have done the preliminary numbers, there was already an estimate created.

Girish Achhipalia: Good enough. So, the balance is provided in the debt also...?

Rajendra Darak: But there is the liability shown as other liabilities, it would not come as a debt.

Anand Vora: It would not become debt. It is just another liability. Payment was not done, right?

Girish Achhipalia: Okay. Let me just ask it differently, how much is the actual change in working capital for the quarter? How much is the increase in working capital on account of the business itself?

Anand Vora: No, we have shown a net working capital reduction of two days, right?

Girish Achhipalia: Okay.

Anand Vora: But you are right, there is Rs.600 Crores of increase. Yes, overall increase in working capital is Rs.639 Crores.

Girish Achhipalia: Rs.639 Crores, okay. And is the money from some of these JVs, has that come back because we have made some investments in some of those Latin American JVs as near-term measures to fund the capital near-term?

Anand Vora: This quarter, we have not got anything.

Girish Achhipalia: Last question. This note #9, again, the $23 million so $10 million is paid out in Q2? Or it is going to be paid out somewhere in the future and then...?

Anand Vora: I think it is based on certain things to be delivered by the sellers.

Girish Achhipalia: And what is the current revenue in EBITDA here, I mean, on an annualized basis for this entity?

Anand Vora: Revenue is in the range of about $30 million. And EBITDA is in the range of about 20%, - 21% EBITDA.

Moderator: Thank you. We have the next question from the line of Lakshminarayana Ganti from SBI Cap Securities. Please go ahead.

Lakshminarayana Ganti: Firstly, last year if you see Arysta your volume growth, which you achieved, was 10%. Now we do not report UPL and Arysta. So combined volume growth, what do you think could you be achieved for this year?

Anand Vora: For the quarter, we have told guided that we have said that we have a 5% volume growth.

Lakshminarayana Ganti: Correct. So how should we approach volume growth per se for the full entity, now that you are Arysta as well as UPL?

Anand Vora: Well, this is the full entity.

Lakshminarayana Ganti: So, going forward, if you…?

Anand Vora: So generally, we have guided for 8% to 10% growth. And typically, you would see that we have a large volume growth, typically in the double digits. We have volume growth as a combined entity, we believe, about 80%, 90% will be volume growth. We do not talk about the exchange as we do not know where that is going to go. So that is how it is.

Lakshminarayana Ganti: And I know you have talked about it earlier, maybe I missed, but the gross margin performance that came in for the quarter was a bit lower than what we all thought. And that you attributed only to the mix related impact that lower sales from Europe and nothing else? Or was there an impact of raw material prices also affecting you? Or any such thing, supply chain related?

Diego Casanello: No. It is by far predominantly the regional mix that is impacting here.

Lakshminarayana Ganti: And by that logic, then if the mix were to improve then you would go back to your normal range in the coming quarters, right?

Anand Vora: Yes. That is correct.

Lakshminarayana Ganti: Yes, that answers. Thank you so much.

Moderator: Thank you. I would now like to hand the conference over to Mr. Nitin Agarwal for closing comments. Please go ahead, Sir.

Nitin Agarwal: Sir, do you want to make any last comment before we close the call, Sir?

Anand Vora: Just thank you for joining us all on the call. And if there are any further questions, feel free to reach out to either Ashish Narkar or myself, and we will be happy to provide you the answers.

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