"UPL Limited
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Moderator: Ladies and gentlemen, good day, and welcome to UPL's Q1 FY 2024 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Radhika Arora: Thanks, Yashashri. Good day, everyone. Thanks for joining us today for the results for the quarter ended June 30, 2023. The presentation, press release and the financial statement has been made available on the website, and we take it that you all have read the safe harbour statement. From the management team, we have with us today, Vice Chairman, Rajendra Darak; CEO of Global Crop Protection Business, Mike Frank; CFO, Anand Vora; Chief Supply Chain Officer, Raj Tiwari, and other members of the leadership team.

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

Anand Vora: Thank you, Radhika. A warm welcome to all of you who have joined us today. I'll begin by discussing the key financial highlights for the first quarter, followed by an update on working capital and debt. The global crop protection market is going through a tough phase over the last couple of quarters.

As for the most recent S&P Global estimates, the market is expected to degrow by approximately 5% for the calendar year 2023. Our first quarter performance too was impacted by the industry-wide slowdown, as well as by the erratic monsoon in India. Consequently, revenues for the first quarter were down by 17%.

Contribution margin improved by 200 basis points to 45.7% led by higher share of differentiated and sustainable products, a favourable geographical mix and improved margins delivered by the seed business.

Overall, contribution profit was lower on the back of lower sales, but we did see a 200-basis point improvement as a percentage to sales. Our SG&A went up marginally by 5%, bulk of this increase being due to translation of financials in rupees amidst depreciation of rupee against the U.S. dollar. However, with the drop in sales resulting in a drop in contribution profits, there was a significant impact on absolute EBITDA.

The EBITDA for the quarter stood at INR 1,593 crores, showing a decline of 32% over that of the previous year. While the performance of our Crop Protection business came under pressure, it's worth noting that our seeds business platform performed robustly, with revenues increasing by 26% from INR 840 crores to INR 1,060 crores and a 54% growth in EBITDA.

The strong performance of the Seed business supported the overall profitability for the quarter. Net finance costs rose by 36% despite the decrease in debt and non-recourse factoring. This was primarily due to rise in benchmark rates by ~350 basis points year-on-year.

The average cost of borrowing for Q1 FY '24 stood at approximately 6% per annum as compared to 3.5% per annum for Q1 in FY '23. FX loss for the quarter was INR 200 crores. This was mainly due to cost of hedging against advanced orders in Brazil. Additionally, there are certain countries where we could not hedge currencies such as Russia and Turkey. Devaluation in currencies of these countries also led to higher FX impact. Net profit for the quarter came in at INR 166 crores as the impact of higher finance cost and FX loss was to an extent offset by lower taxes as we benefited from the lower tax rates due to poor business performance in some of these countries mentioned above.

The tax rate for the year is expected to be at the lower end of the guidance of 15% to 18%, given at the beginning of the financial year. As we highlighted at the Capital Markets Day in May, improving our cash flows, and strengthening our balance sheet continues to remain one of our key focus areas. In line with this, we reduced our net debt in U.S. dollars by $160 million from $3.35 billion in June last year to $3.19 billion as of June 30, 2023. Additionally, we also reduced the non-recourse factoring significantly by $250 million on a year-on-year basis. The receivables securitized stood at $890 million as of 30 June 2023 against $1.14 billion as of June 30, 2022.

Coming now to working capital; the working capital days increased by 14 days year-on-year to 122 days. This was primarily on account of lower payables and a reduction in factoring, as I spoke earlier. In rupee terms, the factoring was down by INR 1,700 crores versus last year. Overall, we expect to end the year with working capital of 65 to 70 days. To give you an update on the corporate realignment initiative, during the quarter, we transferred our Specialty Chemicals business to a wholly owned subsidiary, UPL Specialty Chemicals Limited. This proposed transfer has been approved at the shareholders' meeting in July, and the transaction is expected to be completed in the next few months.

The carve-out of Specialty Chemicals business would allow us to accelerate growth in that business and enable improved access to capital. Moving ahead, as we look for the rest of the year, while Q2 will also see subdued demand in the second half of the year, the demand on the crop protection side is expected to recover as channel inventory approaches a near normalized level. Further, protecting our profitability in the current environment is our foremost priority. Accordingly, we have undertaken a cost reduction initiative of USD 100 million over the period of next 24 months, of which we expect to realize at least 50% by the end of this financial year.

Overall, led by gradual recovery in crop protection demand supported by continued healthy performance of Seeds business and the implementation of cost optimization efforts, we expect the revenue growth for FY '24 to be in the range of 1% to 5% and EBITDA growth in the range of 3% to 7%. On the cash flow and balance sheet front, our focus for generating healthy free cash flow and deleveraging will continue.

With this, I'll hand over to Mike to give us more detail on the global market conditions along with an update on some of the key geographies. Over to you, Mike.

Michael Frank: Thank you, Anand. Hello, everyone. As highlighted by Anand, the Global Crop Protection business has been facing a tough market environment over the last two quarters. While ag-chem demand at the farm gate level continues to be strong, the industry is facing unprecedented challenges due to significant price decline for most post-patent products combined with distribution channel destocking, which greatly impacted product sales in this past quarter.

Even though the current grower demand will absorb existing channel inventories in the next several months, this is a major pain point for manufacturers. It is, however, worth noting that our product share at the end user level has increased in certain segments, demonstrating the strength of our portfolio and commercial strategy.

Moving to results performance; Q1 of FY '24 was impacted by the overall volume decline and pricing pressure largely in the herbicide segment. Herbicides, such as glufosinate, glyphosate, clethodim and metolachlor, especially in North America and Brazil accounted for roughly 75% of the total revenue decline this quarter versus last year.

Our Q1 revenue dropped by approximately 24%, while contribution profit was down around 31%. Margins were impacted by lower prices, resulting in 380 basis points compression versus last year, while EBITDA also declined by 65% year-on-year. Despite the tough environment, we have grown in our differentiated segment by 10% through new launches such as Evolution and Feroce.

This has also resulted in our improved product mix in this segment from 24% last year to 35% in the first quarter. Further, our NPP Biosolutions have also improved margins on a quarter-over-quarter basis. This clearly demonstrates our commitment and focus to improving our overall business quality.

The strength of our differentiated and sustainable portfolio will continue to be demonstrated throughout this year. Taking a look at regional performance for the past quarter; in Latin America, our revenue declined by 28%. Brazil was impacted from significant market degrowth specifically in non-selective herbicides due to price decline.

We did experience growth in Mexico and Argentina versus last year, driven by herbicide volumes. However, the impact from Brazil drove the overall revenue decline in the quarter from this region. In spite of our near-term challenges, through our increased customer focus and our strong product portfolio, we are increasing our market share across this region.

While Q2 will still see some challenges, we anticipate growth in the second half of the year in Latin America. Now moving to North America; sales of herbicides to channel partners slowed considerably versus a year prior. Overall sales and usage at the grower level in the U.S. and Canada was strong.

However, distribution channels were focused on drawing down inventories in part because they were seeing prices fall and therefore, they only purchased on an as-needed basis. Herbicides such as glufosinate, S-metolachlor and clethodim were most impacted with headwinds from lower volumes and pricing pressure.

While this trend will persist in Q2, we expect partial moderation by key insecticides and fungicides such as Mancozeb. Our differentiated and sustainable segment led by NPP products and new launches is poised to mitigate post-patent price decline. We have also seen an increase in California Rice acreage, which provides a nice opportunity to drive sales in that market. We do expect North American distributors will be restocking for next season during Q3 and Q4 of our fiscal year. In Europe, revenues declined by 19% in the quarter due to channel inventory concerns and degrowth in countries such as France and the impact of product bans.

While these concerns will persist in Q2, we see upsides in sulphur and copper-based fungicides and in herbicide volumes in the second half, which are expected to lead overall recovery in the region. The rest of the world was down by approximately 10% due to high price pressure from China competitors, especially in Southeast Asia and Africa.

I would like to highlight that we grew strongly in China, nearly doubling our revenue through insecticide, fungicide and soil and seed health volumes. Looking ahead, across the Global Crop Protection business, we anticipate Q2 to remain weaker than last year due to continued channel destocking in Brazil specifically and the global reset in prices in the post-patent segment.

As previously mentioned, recovery is expected from Q3 onwards through normalization of channel inventories and demand for herbicides and our new launches as key growth drivers. Further, we're undertaking stringent overhead reduction actions. These measures are expected to positively impact by around $100 million in the next 24 months with at least 50% of that being realized this year in FY '24. So, while Q1 was a challenge, the strength of our supply chain assets along with overall strong grower economics, which is driving end-use demand plus our proactive cost actions and incremental revenue from new products, we foresee EBITDA growth in the second half of this fiscal year.

With this, we'll now open it for our Q&A session. Thank you very much.

Moderator: We have a first question from the line of Abhijit Akella from Kotak Securities.

Abhijit Akella: While you've alluded to a subdued outlook for 2Q, it would be helpful if you could please help us understand maybe the rough range within which we might expect revenues to be under pressure for the quarter? And then also just to check on the revised guidance for the full year. If I'm doing my math correctly, it seems to imply that in the second half of the financial year, the ask rate -- the implied growth rate would be probably north of 15% or so.

And given that it will probably acquire 20% or 25% volume growth to achieve that given that pricing is probably going to be negative to the tune of at least 10 percentage points or thereabouts. So, do you expect that sort of volume growth to be an achievable target in the second half?

Michael Frank: Yes, very good. Thank you for the question. I'll take the Q2 question and pass the full year guidance question to Anand. So, I would expect in Q2 that we'll see somewhat of a similar price decline that we saw in Q1, which is in that high single-digit range. And so that is likely to persist in Q2 for us. I think volumes won't be nearly as impacted as they were in Q1. So that would kind of give you a sense that even though Q2 will be subdued, it won't be to the same magnitude as we saw in Q1.

Anand Vora: Yes. And Abhijit, coming to the guidance, you're right. We are looking at a volume growth in low double digits for this full year. And you should also keep in mind that last year, that's financial year '22-'23, the Q4, we had a sharp dip in the prices. So, we do expect price correction to be lower in Q4. So overall, we do believe that based on what we are seeing and our assessment of Q2 as well as of H2, we feel comfortable with the guidance of revenue growth of 1% to 5%. And you're absolutely right. It will be largely driven by volume and to some extent by favourable exchange rate.

Abhijit Akella: Got it. No, that's helpful. And maybe just one other point on which I was hoping to seek Mike's insights on the matter of competition from China. We understand that they've increased their capacity substantially in some of your key products. Do you see them reducing their competitive intensity in coming quarters or would you see the overcapacity there as a bit of a structural problem?

Michael Frank: Yes. Thank you, Abhijit. So, look, I think once capacity comes online, it's more of a permanent fixture. Right now, what we're seeing is very low demand coming into the market in China. Again, this change in buying habits by distribution is impacting, I would say, across the industry, whether they be Chinese producers or across the rest of the multinational companies as we're seeing other companies report their results from this past quarter.

Look, on a go-forward basis, I think the competition will be intense. Eventually, I think some of the AIs that have too much capacity that will get rationalized over time, but that will take, I think, several quarters into the future. So, I don't think that's going to happen here in the near term. That being said, we do know that some of the projects that were set up for further capacity expansion. What we're seeing in China now is that those projects are being stopped. So, I would expect that there'll be very few projects in the future, which are adding capacity, but we do have some AIs where capacity is very high at this point.

Abhijit Akella: That's very helpful. And just one last quick thing for me for Anand. Any guidance on the debt reduction and the factoring levels for the full year, Anand. Thanks a lot.

Anand Vora: Factoring, I think we'll try to keep it between $1.4 billion to $1.6 billion. And on debt reduction, while we didn't give any guidance, we have reduced our debt by about $160 million in Q1, and we will continue our effort to reduce debt as we move forward over this financial year.

Moderator: We have a next question from the line of Madhav Marda from Fidelity International.

Madhav Marda: I have two questions. First of all, given that there has been some destocking which has been happening in the channel across some of the key markets. Do you think channel inventory is running is more than usual levels, like if it looks like X, at the usual time are we running lower than those levels right now?

Michael Frank: Yes. So, look, the reality is it's really a country-by-country, market-by-market situation. I was in the U.S. just a couple of weeks ago visiting with key distributors across the U.S. And I would say, largely, the inventory levels are at what I would call normal levels for most companies. There were a few distributors I talked to that still had higher-than-desired inventories.

Now if you go to Brazil right now, of course, they're in the process of gearing up for the upcoming soybean season. And so, I think it depends whether you're looking at Northern or Southern Hemisphere. Inventories at the distribution level, I would say, haven't completely normalized. I would expect that to take place over this upcoming quarter, for the most part, but we're approaching those levels.

And again, if you rewind the clock over the past couple of years, the situation with COVID and then also the Russia war situation, it did put pressure on supply chain reliability. And so, through that period, distributors were generally trying to bring into inventory, products that they could get a hold of.

And overall, that's why inventories were built up really on a global basis. And so now we're seeing the other side of that situation where there's no longer concern about supply chain reliability. And therefore, naturally, distributors are trying to get back to a more normalized level. So, it's getting close. I think we have another quarter or so of normalizing this -- and then from that point, we'll be restocking as per normal.

Madhav Marda: Got it. And the second question was a lot of the AIs that you said, and we've seen data on pricing having come down meaningfully in the last six or eight months. Are these prices -- would you call that a sustainable level or do you think these are prices where it's -- where profitability comes under question because there's been a lot of volatility inside of a lot of products over the last say, since COVID to now. Do you think current prices are more sustainable or are they like below sustainable levels? How would you read that?

Michael Frank: Yes. I would say based on current feedstock costs, that generally the prices that we're seeing are barely covering feedstocks and probably not covering the fully loaded overheads. And so, this level can't persist into the mid- to the long-term. So, I do expect that there's going to be a combination of rationalization and ultimately some uplift in prices. Again, it's hard to predict when exactly that's going to evolve. Right now, because of the low demand, we're seeing the low prices persist.

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

Sonali Salgaonkar: My first question is with respect to the debt. Could you give us the gross debt and net debt figures in INR terms for Q1 this year versus last year?

Radhika Arora: Yes. Sonali, it's essentially on the slide 11, if you look at the quarter one presentation that's there on the website. The numbers are INR 30,083 crores in June '23, and similar number, June '22 was INR 30,123 crore. However, if you see in dollars, it was $3.66 billion versus $3.81 billion, so down by about $147 million.

Sonali Salgaonkar: Understand. Sir, I understand you are not giving a guidance for deleveraging per se, but any guidance for net-debt-to-EBITDA for the year?

Anand Vora: We are targeting to end this year at a Net Debt-to-EBITDA of below 1.5.

Sonali Salgaonkar: Got it, sir. And lastly, on the product ban in Europe, anything you would like to quantify in terms of what is the impact that you are gaging? And if at all, it is going to have an impact on the full year numbers as well?

Michael Frank: Yes, I'll take it. It's Mike here. So, the one product that was banned last year that we're not able to sell any longer this year is an active ingredient called bifenazate. It's a very nice product for us, high margins. Last year's revenue was about $24 million. Obviously, we knew that coming into this year. So, that was part of our planning assumption, but that gives you a magnitude of the product bans on a year-over-year comparative basis.

Sonali Salgaonkar: Got it. Sir, last question, sorry, if I may slip one. The North American sales have declined quite sharply for UPL Corp. We understand it's related to channel inventory issues, but any further clarity you would like to give on this?

Michael Frank: Yes, as I said, I was in the U.S. just a couple of weeks ago. I think our portfolio is performing very strong. Our relationships with our channel partners there is also very strong. So, this really is a correction in inventory levels as you know in North America, it's really just one season.

And so, they typically load up in our third and fourth quarter, and then they delete their inventories in Q1, Q2, Q3. And so, their sales to growers is strong. Our products are performing very well in the U.S. And again, I think once we get to Q3 and Q4, with restocking in the U.S., we'll see our business pick back up.

Moderator: We have a next question from the line of Prashant Biyani from Elara Securities.

Prashant Biyani: Mike, in your recent visit to U.S., what feedback have you got about the Midwest region, we are hearing about drought-related conditions persisting there? And in that backdrop, how do you see the North American sales for the year? I understand that you have told that sales could revive H2 onwards but wouldn't that be too early for the industry to revive given that -- I mean that market is sitting on a very large inventory some people are saying.

Michael Frank: Yes. Thanks, Prashant. Yes, so firstly, with regard to the drought, there obviously is some weather impact in certain areas of the market. I was in Chicago. I was in Minneapolis, and there are some of those regions that have had a lack of rainfall this year yet in other areas of the corn-belt rains have come very timely. So again, it's very much kind of a county-by-county situation there.

Generally speaking, though, I think that North American yields for corn and soybeans are going to be probably near trend line, maybe off trend line a little bit, but there's going to be generally strong yields, which, again, if you multiply that against commodity price that growers are getting for corn and soybean, grower economics are going to come out this year quite strong.

Just to be really clear then on the restocking, Q2 is not a restocking quarter for us in the U.S. We continue to sell into the channel, I would say, on an as-needed basis where certain products are getting pulled right now, mostly insecticides and fungicides, more so than herbicides, where we're replenishing certain distributors. Really, the restocking for next season happens in our Q3 and in our Q4. And again, we would expect to see a strong business in North America come in Q3, Q4.

Prashant Biyani: Right. And second question on the India business. How are we anticipating the on-ground consumption after this recent bout of pickup in rainfall for the current Kharif season?

Ashish Dobhal: Yes. Thanks for the question. I think after the lack of rainfall we had in June; I think it's good that things have moved in India, and we are seeing good rains now. The only thing is that it's too much rains now in a lot of areas like Punjab and Gujarat where there's a lot of flooding. Eastern side, we still are deficient, some districts of soybean are still deficient and Northern Karnataka still deficient. However, having said that, the liquidation from here should definitely increase. I think this is much better to what we initially thought in terms of how the weather will pan out. And these rains should definitely help us in the Q2 liquidations.

Prashant Biyani: Lastly, just a short one, Ashish, sir, the season has got delayed by how much in India right now?

Ashish Dobhal: So, it's very different for various geographies. If you would see the Gujarat business that started, but then now it's got delayed because of the floods. Cotton is absolutely okay in time for North. But the paddy in north is again delayed because of the paddy floods which came in the GT road belt. Soybean is on track. Maharashtra is more or less on track. The Karnataka season will be delayed a little bit, and so will be Hyderabad season where still we are experiencing some heavy rains. East is still delayed by about 15 days.

Moderator: We have a next question from the line of Josefina Rodriguez from Waha Capital.

Josefina Rodriguez: Two questions from my side. So, I see gross debt you're reporting now $3.667 billion. In the last quarter, if I look at Q4 '23, it was $2.7 billion. So, I wonder if you are like now counting some maybe factoring or what was the driver of that increase in debt? Second question is capex. If you give guidance for this year and if you're thinking of maybe reducing it to preserve cash flow.

Anand Vora: Sure. Thanks, Josefina. Due to the seasonality of our business, we do see an increase in working capital as we move into the financial year. So typically, you will see an increase in working capital in Q1 and it peaks in Q3. So, in December, the working capital is at its highest level. And then we see a drop in working capital in Q4. So, in continuation of the increase in working capital, you will see that the borrowings also keep going up. And therefore, we always compare net debt with corresponding quarter of the previous year rather than a quarter-on-quarter comparison.

In comparison to Q4FY23, this is almost an increase of INR 8,000 in working capital as we move into the season. And correspondingly, the debt has gone up. So that's the reason. It's nothing to do with our non-recourse factoring, which doesn't impact our borrowing.

Moving to the second question on the capex, certainly, I mean we had guided for about $325 million to $350 million. We now feel that we should be in the range of around $300 million. In order to conserve cash, if we need to postpone some of the capex or something, we are reviewing that currently.

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

Abhiram Iyer: So, I understand you're comparing the gross debt on a year-on-year basis, which is fine. But previous year also had the impact of a reduction in debt due to the equity infusion by the minority shareholders during the restructuring of the company. So that impact seems to have sort of gone.

Is the entire increase from $2.8 billion to $3.6 billion driven by working capital? And the other question is cash as well has sort of come down from March to now. So again, could you just help us a bit on the walk in net debt basically on a quarter-on-quarter basis? Is the entire thing working capital? And is it expected to reverse in Q4?

Anand Vora: So, it certainly will get reversed in Q4 as I said, Q4 is when most of our cash collection happens. Also, as I mentioned earlier, about INR 8,000 crores of build-up was therein working capital. There have been certain investments and the tax and other payments too.

But as I mentioned earlier, we do see in fact, in the next two quarters also, you will see a slight increase in working capital. And in Q4, you will see the working capital coming down.

So that's been the trend over the last five years And as I said, in Q1, we have reduced net debt by about $160 million in U.S. dollar terms as well as we have reduced the factoring by about $250 million.

We do expect to continue with this trend as we move into the next two, three quarters. Clearly, looking at the state of business and the market, largely, as Mike alluded, looking at the conditions of market, we will take all measures to improve our cash cash flows and see how we can bring down the debt further.

Abhiram Iyer: Got it. Got it. And in a sort of similar vein, the company's bonds are still sort of on negative outlook by Fitch, one of the two agencies which rated investment grade. Maybe just give a bit glimpse on what the conversations have been? And how do you see sort of evolution and basically time given by the rating agency to sort of get back to a full sustainable sort of business? I mean, currently obviously, there is an impact from market effects.

Anand Vora: Yes, I think the good part is –that the rating agencies have been rating various other crop protection chemical companies, and they do know the market conditions. In Q4, they maintained their rating. As more and more information started making available on China as well as some of the other companies came up with their results, they understood the market conditions.

And also, most rating agencies take into consideration the non-recourse factoring and we have reduced the non-recourse factoring by $250 million in Q1, that is something which I'm sure they the rating agencies will look at more positively. But we are yet to engage with them after the results. So those calls are scheduled over the next couple of weeks.

Abhiram Iyer: Perfect. And just one last question. There is a cost reduction initiative that's been mentioned of $100 million over the next two years and about 50% of them would be in the next fiscal year. May I just understand that your revised EBITDA forecast includes this cost reduction or is this an upside that potentially might come about if these are on track?

Anand Vora: We have included this cost reduction in our 3% to 7% EBITDA increase guidance.

Moderator: We have our next question from the line of Darshit Shah from Nirvana Capital.

Darshit Shah: So, the India business has been fairly okay as far as Q1 was concerned, while the rest of the regions, as you mentioned, are seeing a sort of channel destocking and price fall. So, can you highlight what is the situation in India in terms of our product portfolio and overall general industry perspective on the Indian market?

Ashish Dobhal: Yes. So, I think India is a in a slightly different position as compared to the global businesses, where we had a very good fourth quarter. We are facing some of the headwinds that are there in the global business also, but that's primarily on the post-patent molecules.

But we have a very high share of proprietary products in India. We have some good brands, some good new launches coming up. We also have some soybean herbicides, which we have launched recently.

And we have a good outlook in terms of some of the other wheat products and some of the other Rabi products which are there in the market. So, I think having a relatively higher share of proprietary products in the India business, sort of insulates us from some of these things. Having said that, we have faced very tough situation with some of the products too.,

So, I think that's one thing. And of course, India is one of the geographies in the UPL ecosystem, which is very, very close to the farmer. It's a pure B2C play that we have in India. That also sort of gives us some insulation in terms of how we are facing the challenges in the market. So, broadly Q2 for us should improve to some, extent and then I think it should get better from thereon. I hope I have answered it.

Darshit Shah: Yes, you've answered it really nicely. Thank you so much.

Moderator: We'll move on to the next question from the line of Matias Vammalle from BlueBay Asset Management.

Matías Vammalle: I think I'm taking us maybe back to the beginning of the call but I'm really sorry, if you can repeat a little bit and explain and help us understand the weakness in Brazil and then obviously, a little bit of how you're seeing that going forward given that it's obviously the biggest market in Lat-Am, and that's a meaningful impact. Thank you.

Michael Frank: Yes. Thanks for the question. So yes, the Brazil impact on this quarter is really related to the herbicide segment, most specifically. And even within herbicides, it's really the non-selective herbicides with the prices coming down significantly for both glyphosate and glufosinate products that we sell into the channel in Brazil. Through the first quarter, we were in negotiations with a lot of our distributors.

There were some product returns that we had to consider and some renegotiations that we also needed to consider in terms of working closely with our distributors to set them up for success going forward. And so that work really took place in the first quarter. I would say a lot of its behind us. There's probably still a little bit to do in the second quarter, but that was really at the crux of why the situation in Brazil was so significant. Now again, if you look at across the industry, this really was a factor that impacted the entire global crop protection industry. I think softness in Brazil is a feature for every company that participates in that market.

Moderator: We have our next question from the line of Nitin Agarwal from DAM Capital.

Nitin Agarwal: I have two questions. One is on the Chinese aggression which has come through on some of these non-selective herbicides. I mean how does that really make you sort of relook at your strategy for the next three, five years?

Michael Frank: Yes, Nitin. So, part of that goes back to how we're looking at overall our cost of doing business and so we really do think that on some of these AIs, specifically in the post-patent and herbicide market that these costs have reset. And therefore, we're also resetting our costs, both from a manufacturing and SG&A standpoint in those segments.

And so, when we talk about taking cost out of the business in the range of $100 million over the next two years, it's really setting up our post-patent business to be leaner so that we can compete more aggressively. And so, I would say that's primarily how we're adjusting for this new reality.

Nitin Agarwal: And secondly on guidance from a year-end net debt perspective, do we have any color on what are we looking at in terms of reduction of debt versus the last year? So where do you see the dollar debt ending up?

Anand Vora: Nitin, as you see Q1, we have managed to bring it down by about $160 million. I think as I mentioned earlier, our efforts will be to bring down our debt further. Considering the industry where it is today, I think it's best to focus on profitability and conserve cash. So, we will look at reducing the debt.

I also mentioned that we are closely monitoring the capex spend. So, for everything that's within our control, we'll try to see how we conserve cash. And needless to mention, we'll keep bringing down the debt as we move forward during this financial year.

Nitin Agarwal: And second, on the guidance given out, I think it's a pretty reasonably positive guidance for the full year in my view. What is the risk that you see to the new guidance number of 3% to 7% that you put out on the EBITDA?

Anand Vora: Well, I think the good part is we have been engaging with our teams across the world with various regions, and we are getting their feedback. We mentioned earlier that we will be focusing on the volumes just to ensure that we don't lose the market share. In fact, even in Q1, despite the drop in sales, we did maintain our market share. So, we remain fairly confident of delivering this guidance. I mean it's been after a lot of internal discussions and feedback from our regions that we have come up with this guidance.

You see the range also; we have given a broad range just to ensure that we remain within the guidance. So, also the cost saving initiatives, on the SG&A, which Mike explained, we have undertaken an aggressive cost reduction drive.

And already, we have started work on it, so we do believe that that should also give us some cushion to ensure that we deliver on our guidance on the EBITDA. When you look at Q1 numbers, it looks like a bit of a bit of tall order, but we do believe that we should be in a position to deliver based on the revised guidance.

Nitin Agarwal: Thanks Anand. If I could squeeze in the last one. This is the first, I think, after two very high growth years you have one sort of normalizing year for the business from a top line perspective. I mean does it structurally ease out working capital pressures for you? I mean how do you look at that from that perspective?

Anand Vora: Yes and no. I mean, yes, because the price increase which we got over the last two years obviously did have an impact on the working capital. As you saw, the sales growing at a much faster pace than what we had forecast or what we had guided for. With the prices now normalizing, we should see some reduction in working capital. But the good part is we are seeing the destocking. And once the distributor starts seeing the destocking happening at their level, it means they would have cash flows in, and fresh orders also would be placed. Overall, we expect to end the year with a working capital of 65-70 days.

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

S. Ramesh: So, in the last quarter, you had mentioned that there was a reduction in your capacity utilization in our manufacturing plant. So, has the capacity utilization remained the same? And secondly, can you give us some sense of the loss you have taken on returns and inventory?

Raj Tiwari: Yes. I mean except for your herbicide, the capacity utilized in most other cases has gone up as compared to last year. But on herbicides, of course, because of the market pressure, some of the herbicides are facing volume pressures. And therefore, the capacity utilization has been a bit lower as compared to last year.

Michael Frank: Yes, on the question of returns, maybe just hit that. So, I would say, generally, even though we did take some returns in Brazil, for the most part, the return levels are quite low. Instead of taking returns, we did more renegotiation with channel. And so, I would say that it's not physically bringing back product into our warehouses. We worked with the channel and renegotiated some of the positions and also then anticipated some future sales with them. And so that was more of a feature that impacted our financials in Q1.

S. Ramesh: So, if I may squeeze in one more thought. In terms of the cash flows, you have seen it reduce substantially to about INR 268 crores. So based on your guidance, what is the kind of visibility on cash flows? And how do you see that impacting your rating going forward by the end of the year?

Anand Vora: As I mentioned earlier, Ramesh, that the rating agencies have a good view on the overall industry, and they are also rating some of our peer group companies. So, it should not come as any surprise to them. So, the reduction in absolute debt by about $160 million as well as in terms of non-recourse, that's off-balance sheet reduction of $250 million, I think should auger very well in our discussions with the rating agencies.

S. Ramesh: So, can we take it that your cash generation will improve by the end of the year?

Anand Vora: Well, as I mentioned, that's our effort, right? Considering the way, the markets are, we will focus on cash and profitability.

Moderator: We have our next question from the line of Marvin from ABRDN.

Marvin Yee: I just want to dive in a little bit on UPL Corp, just noticing that EBITDA has dropped about 65%. EBITDA Margin is also 10%. Just wanted to understand, based on your projected guidance of 3% to 7%, how will UPL Corp EBITDA change over the next few quarters?

Michael Frank: Yes. So, I'll give some shape and then pass it to Anand as well. So Q1 traditionally is our smallest quarter, and we would expect that to be the same this year. And so of course, our SG&A is relatively smooth through the four quarters, but our revenue and margins are lowest in Q1. And so obviously, when we saw the margin compression and the reduction in sales, then you get the corresponding significant impact in reduction in EBITDA. Obviously, as we go through Q2, as I mentioned, we don't expect to see the same level of reduction.

Q2 is also typically a little bit larger of a quarter for us. And then the second half of our year is typically 60% or more of our business. And so, we're not providing specific guidance on UPL Corp. We will be under pressure, I think, over the course of this year to see EBITDA growth, but our SG&A actions are going to help and our focus on gaining share and driving volumes through the second half of the year will also help us drive revenue. So, Anand, I'm not sure if you have any other comments.

Anand Vora: No, absolutely, I think that pretty much explains it, H2 is always the heavier. It's a 60-40 H2/H1 ratio. So, we should see the improvement. And as Mike said, SG&A typically would be more or less stable for the full year. And with the initiatives that we have taken to bring down our SG&A by $50 million in this financial year, that should also help to improve the EBITDA as we move forward.

Marvin Yee: Okay. And maybe just another follow-up and for the other entities like UPL SAS, Advanta and Specialty Chemicals business, those being a little bit more defensive? Do you think it's going to remain the same over the coming quarters as well?

Anand Vora: Well, you have heard from Ashish, UPL SAS CEO. Maybe a few words from our Seeds business CEO, Mr. Bhupen Dubey, maybe I'll hand it over to him. Bhupen, if you can just give a view on the quarter gone by and the full year performance, please?

Bhupen Dubey: Thank you, Anand. From an Advanta perspective, if you look at the numbers, the quarter one has been quite robust, with significant growth in top line, EBITDA, and bottom line. And good point is that the source of growth is very balanced with ’the volume growth being 14%, price increase about 9% and FX about 3%. We also saw very robust growth in EBITDA, which has gone up by 54%.

Some couple of comments on the crop-wise, the field corn, the tropical field corn across key markets like Peru, Ecuador, Thailand, and India, have performed very well. The field corn in

Indonesia, where we are moving from B2B to B2C, and good demand is picking up in a new arrangement.

And another important segment is the grain sorghum in U.S.A. A China, trade delegation visited U.S.A recently and they are talking with the U.S. sorghum industry to buy to the tune of 7 million to 8 million ton of grain sorghum to feed livestock and for the alcohol industry. So, as a result of that, there is a pickup for the grain sorghum also and that is also reflected in the commodity prices there. So, these are the key highlights on the quarter one.

Quarter two, we believe will see lower growth versus quarter one, but still, we should see double-digit growth. And then broadly, when we look at the outlook for entire year, also, I do believe that the current operating environment for the seed industry is very positive.

And for Advanta particularly, our product portfolio is very sustainable, and that is actually the scenario which is evolving favourably for us. So broadly positive for seed business.

Moderator: We have a next question from the line of Somaiah V from Spark Capital.

Somaiah V: This is Somaiah. Sir, quick question on the volume growth outlook that we have. Quite a strong one for the second half. So, if you can just help us in terms of regions or specifically Latam and what are we expecting in second half? And then what should drive this kind of a volume growth in second half?

Michael Frank: Yes. So, it's Mike here. In our Global Crop Protection business, the volume growth is really going to come from change in the timing of when distributors are restocking. Again, over the past couple of years, distributors were restocking throughout the year. And I think now that the view is there's no longer risks on supply chain reliability, distributors want to stock much closer to the season.

Of course, on top of that, you've got higher interest rates, and so they're trying to manage their working capital as well. So that's why we expect to see, especially in the Northern Hemisphere, really good restocking in our business in Q3 and Q4. Asia, Africa, again, those businesses take place throughout the year. There are several markets that we serve in that region.

And then coming into the second half of the year, we'll be restocking for safrinha corn in Brazil along with the various markets in Central America and Mexico that we serve. So we have a pretty good line of sight. Again, based on some of this being a shift in timing, we can anticipate a strong volume half in the second half of our year.

Somaiah V: Got it, sir. That's helpful. Second thing in terms of pricing. So in terms of pricing curve, where do we think we are? I mean, because we've had some five, six quarters of continuous double-digit pricing growth. So the pricing impact, are we close to the bottom or is it still more left in second half also compared to pre-COVID levels where we are today and how do you see things going forward?

Michael Frank: Yes. So, the year-on-year pricing impact is going to continue to play out throughout this year. As we reported in Q1, our price was down about 10% in our Global Crop Protection business. I would anticipate that it will be somewhat similar in Q2 and Q3. In Q4, it may not be that significant because we did take some pricing actions starting in Q4 of last year.

So again, I think we've got a couple more quarters where that range of high single or low double-digit price decline is going to be seen then we'll work out of it coming into our fourth quarter. And then again, next year, we'll see how the China price evolves. And obviously, growth of our differentiated and sustainable business will also provide the opportunity for us to continue to drive pricing actions as well.

Somaiah V: Got it. One small clarification in terms of working capital. So when we say we are expecting a reduction for the year. So this also includes the effect of lower factoring for the year?

Anand Vora: For factoring, we'll be in the $1.4 to 1.6 billion range, which is I would say flat as compared March 2023.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Anand Vora for closing comments. Over to you, sir.

Anand Vora: Thank you. Thank you, everyone, for joining us on this call. If you have any follow-up questions, kindly reach out to Radhika or you can reach out to myself, and we'll be happy to answer. Thank you once again for joining us on this call.

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