"UPL Limited
Q2 FY2019 Results Conference Call"

October 26, 2018

ANALYST: **MR. NITIN AGARWAL – IDFC SECURITIES**

MANAGEMENT:
MR. JAIDEV SHROFF – GLOBAL CHIEF EXECUTIVE OFFICER – UPL LIMITED
MR. RAJENDRA DARAK – GROUP CHIEF FINANCIAL OFFICER – UPL LIMITED
MR. AJIT PREMNATH – CHIEF OPERATING OFFICER - GLOBAL BUSINESS – UPL LIMITED
MR. ANAND VORA – GLOBAL CHIEF FINANCIAL OFFICER – UPL LIMITED
MR. ASHISH NARKAR – SENIOR GENERAL MANAGER – FINANCE – UPL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to UPL Limited Q2 FY2019 Earnings Conference Call, hosted by IDFC Securities. As a remainder, 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 “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitin Agarwal of IDFC Securities. Thank you and over to you, Sir!

Nitin Agarwal: Thanks Inba. Good afternoon and a very warm welcome to everyone for joining us for UPL Limited’s Q2 FY2019 post results earnings call hosted by IDFC Securities. On the call today we have representing UPL management, Mr. Jaidev Shroff, Global Chief Executive Officer, Mr. Rajendra Darak, Group Chief Financial Officer, Mr. Ajit Premnath, COO, Global Business, Mr. Anand Vora, Global Chief Financial Officer, and Mr. Ashish Narkar, Senior General Manager, Finance. I hand over the call to the UPL team to make some initial opening comments and then we will get into the question and answer mode. Please go ahead Sir!

Anand Vora: Thank you very much Nitin. Good day everybody and welcome to the Q2 FY2019 earning call. We will now take you through the key numbers for the second quarter. The gross revenue for the quarter ending September 2018 is at Rs.4257 Crores as compared to Rs.3770 Crores for the quarter ending September 2017. The gross margins increased to Rs.1851 Crores from Rs.1610 Crores in the previous year, an increase of 15%. Gross margins as a percentage of revenue were at 43.5%, an improvement of 80 basis points. EBITDA went up to Rs.839 Crores from Rs.719 Crores, a growth of 17%. EBITDA as a percentage of revenue was at 19.7% showing an improvement of 64 basis points over the same period last year. Profit before tax of Rs.457 Crores is an increase of 13% over that of the last year.

This year as you would have seen the financial results, we have shown net profit after tax after exceptional items, but before Arysta integration expenses. As you all are aware we announced on July 20, 2018 the transaction to acquire Arysta and we are awaiting regulatory approvals for its closure before we can close the transaction. However, the integration work has begun and therefore what we have shown in our financial results are net profit after tax after exceptional items, but before Arysta integration and as you would see this net profit stood at Rs.307 Crores showing a growth of 30% over that of the previous year same quarter. As a percentage of revenue, net profits were at 7.2%, an improvement of 90 basis points over that of the same quarter in the previous year and the net profit after tax after considering Arysta integration expenses stood at Rs.270 Crores as compared to Rs.237 Crores in the previous year, a growth of 14% over that of the previous year.

The revenue split across geographies is as follows. India region grew by 8% from Rs.997 Crores to Rs.1077 Crores. Latin America had a growth of 26% from Rs.1385 Crores to Rs.1742 Crores. Europe has shown a growth of 1% from Rs.363 Crores to Rs.367 Crores. Rest of the world has grown by 6% from Rs.632 Crores to Rs.669 Crores and North America had a growth of 2% from Rs.393 Crores to Rs.402 Crores.

During this quarter, the sales volume grew by 8%, the price increase was 4% leading to a constant currency growth of 12%. The exchange impact was favourable by 2% translating into a net increase in sales of 14% for the quarter.

I will move now to the first half numbers for FY2019. Gross revenues for the first half for FY2019 stood at Rs.8391 Crores as compared to Rs.7493 Crores in the first half of the previous year, a growth of 12%. Gross margins went up to Rs.3639 Crores from Rs.3199 Crores in the same period over the last year, an increase of 14%. Gross margins as a percentage of revenue were at 43.4%, an improvement of 70 basis points. EBITDA increased to Rs.1686 Crores from Rs.1469 Crores in the previous year. EBITDA as a percentage to revenue was at 20.1%, an improvement of 50 basis points over that of the previous year. Profit before tax of Rs.1027 Crores shows an increase of 7% over that of Rs.961 Crores last year. Here again the profit after tax after exceptional items, but before integration expenses, which largely have been incurred in Q2, stood at Rs.817 Crores as compared to Rs.712 Crores, an increase of 15% over that of the previous year. Net profit before Arysta integration cost was 9.7% of revenue, an improvement of 20 basis points over that of the previous year. Net profit for the period after Arysta integration expenses was at Rs.780 Crores, an increase of 10% over that of the previous year and as a percentage to revenues, net profit stood at 9.3% for the first half of FY2019.

The region wise breakup of revenues for the first half is as follows. India at Rs.2325 Crores represents 28% of our total revenues and showed a growth of 10% over that of the previous year. Latin America revenues at Rs.2606 Crores stood at 31% of our total global revenues and showed a growth of 23% over that of the previous year. Revenues from Europe at Rs.1015 Crores represented 12% of our total global revenues and showed a growth of 7% over that of the previous year. Rest of the world at Rs.1304 Crores represented 16% of our global revenues and showed a growth of 6%. North America at Rs.1141 Crores represented 14% of our global revenues and showed a growth of 6% over that of the preceding year.

In the first half of FY2019, volumes were up by 8%, the price increase was 2% thereby a constant currency growth of 10% in revenue. There was a favourable exchange impact of 3% leading to a net increase in sales by 13%.

Moving to working capital, the net working capital for September 2018 versus 2017 is as follows. The net working capital increased by five days, inventory increased by 12 days to Rs.128 days, receivables have decreased by four days to 118 days and payables have increased by three days to 138 days. The net working capital days for both periods are based on trailing 12 months sales.

The debt and cash levels as at the end of September 2018 were as follows, gross debt was Rs.8388 Crores. As of March 31, 2018 it was Rs.6638 Crores, an increase of Rs.1750 Crores. Cash levels were at Rs.2038 Crores, the cash levels as of March 31, 2018 were Rs.2893 Crores. Hence the net debt is at Rs.6350 Crores versus March 2018 of Rs.3745 Crores, a net increase of Rs.2605 Crores. Of this Rs.2605 Crores, Rs.605 Crores is largely because of the exchange impact. In constant currency terms, the debt has gone up by about Rs.2000 Crores. This has largely been because of the increase in working capital, which most of you know that, because of the seasonality of the business, it is this quarter end as well as next quarter end we see the increase in net working capital and then by March end we see the tapering down, as the collections come by.

With this we have more or less covered the financial numbers. I will now give an update on the Arysta integration, which as I just mentioned we have announced the transaction on July 20, 2018 and we have already initiated the integration process. On the regulatory side, I would like to state that on the anti-trust regulations front we have got approvals from the USA, Brazil, Columbia, Ukraine, South Africa and FIRB approval for Australia. So, we have some of the key geography approvals in place, a few more approvals are awaited. We expect these to come by the end of this year or beginning of next year, so we expect the transaction to close somewhere in late 2018 or early 2019.

As for the integration process, an Integration Management Office has been set up, it has 45 team members across UPL and Arysta who have been nominated or I would say pulled out from the day to day operations and are fully focused on the integration process. We are on track to achieve the day one continuity of business, including business integration in priority countries. We have line of site to achieve US $200 million cost synergies validated through a detailed bottom-up analysis. Validation of targeted revenue synergies also is in progress. Communication plans have been prepared for priority stakeholders especially what we call the J-makers these are the Japanese customers as well as providers of technology with whom Arysta has longstanding relationship. We have organized townhalls both at the UPL side as well as Arysta side. Essentially engaging with the employees and understanding their expectations. The organization structure has also been defined and we have the first level of organization structure finalized. We have decided that we will continue the name of UPL and the combined entity will be known by the name of UPL.

Our IT infrastructure, which as all of you would appreciate is the backbone and the integration of IT structure is an important component for a successful integration. So we have already worked on the consolidation of infrastructure and also a common ERP platform is being planned. So, on the integration side we have made significant progress and we remain fairly confident that the organization would be ready for the day one as an integrated company and we want to ensure that there is minimal business disruption. With this I will hand over the call to Ajit and request him to provide business updates for the region for quarter ended September 30, 2018. Over to you Ajit!

Ajit Premnath: Good afternoon Ladies and gentlemen. Let me try to give some colour to the numbers that Anand just gave you. Before I go into the details of the regions and overall summary of global business, I think to start with the weather across the globe was a mixed bag, we had some difficult situation in North America, North Europe, parts of Asia and Australia and this did have impact on the business. Also, India we started off very well, but, later on we had monsoon issues and at the end of the day monsoon was lower than previous year, but more important the distribution of rainfall was very poor and that also had an effect on the business.

On the supply side, I think the increases in the cost sort of came to a stable situation in more or less in most of the products, but the bigger problem was availability of certain raw materials and active ingredients and this continues to be a challenge even today. So that has impacted to some extent our business. On the price side, we have been making endeavours to improve prices in line with the cost increases and as you can see that during the quarter we achieved 4% price increase versus 2% last quarter and this shows that our price increase is getting more and more accepted and as we start the new campaign from September in certain geographies like North America and Europe we will see even more impact of this price increase as we go forward. So with this overall comments, let me give you some specifics on the regions, starting with India.

In India, we started off pretty well, but because of the rainfall distribution and especially the impact on the cotton areas, we did have a challenge and as you know UPL has a strong portfolio on cotton especially in states like Maharashtra, Andhra Pradesh, parts of Karnataka we did face some difficult situation. Overall the sowings were higher than previous year in almost all key crops whether it is oilseeds, rice, sugarcane, even cotton at the end of the day saw higher crop areas than previous year. We launched a few new products in the beginning of the year and really this was their first full season and acceptance of this product has been quite encouraging for us. The products like Sweep Power, Avancer, Delma, , etc., were accepted very well and we hope to see them grow to really significant size in the coming years.

One of the positives that we see is that for the Rabi crops, the prognosis is very good in south, because all the dams are full and we see water available for crops like chillies and rice, etc., so we expect good Rabi. Wheat in the north is very stable season, so that should be okay. We also saw a significant growth in the Biologicals portfolio, although the overall size is not very significant. But strategically it is very important and we saw a good growth in our portfolio of Biostimulants. So with this I think India has been a mixed bag, we had overall growth of 8% in the quarter, but overall H1 has been about 10% increase, this clearly indicates that our Q1 saw bigger growth than Q2 and that is because the replacement sales was limited because of poor consumption in certain geographies.

Coming to Latin America, I think all the key countries in Latin America have registered growth, we had challenges in Argentina because of overall economic situation and depreciation of currency, etc., and the focus in Argentina for UPL has been to improve or maintain the quality of business, which means managing the exchange rate fluctuations, managing collections in time, etc. But in rest of the geographies we had a decent growth in the quarter and for H1. We did a very strong campaign in South Cone, which is Bolivia, Paraguay region, which is bordering Brazil to really replicate the success we had on fungicide resistance management that we had in Brazil and we have received very good acceptance of this concept in these markets also.

We see a positive growth in sales in the next quarter in the region especially Brazil, where we have had a success in advance orders and that shows in the regional numbers and going forward we are positive that we will be able to also establish price increase in this campaign that is coming through. And I think the farming community in Latin America is pretty upbeat because they see a great opportunity in exports to China, given the situation that the US has and that will allow encourage them to invest for better yields and we believe their exports will really grow and they should expect good prices, also some of the currencies have strengthened so, which is good for them. So that is LATAM, we did receive several new registrations in the region, which are also doing very well and we will be seeing season for them starting from early next year.

For Europe this quarter is the smallest, it is end of season actually and due to very dry season in North Europe, which is very unusual, the sugar beet crop really suffered, the yields are pretty low, the consumption of herbicides also was not too high, but overall the situation is okay because we did not start with very high opening inventories and therefore whatever was sold is more or less consumed, so we do not have any concern going forward. We expect that the sugarbeet acreages will actually go up next season and hopefully with good weather we should see another successful sugar beet season next year. Southern Europe, which has been facing drought for the last two years, did have a good year. They had good rainfall in Spain, Italy, etc., which helped our fungicide sales on grapes and fruit crops so that was a positive.

The new season starts in September as like North America, our selling campaign will start now and we are very positive that the new campaign should be successful in terms of advanced booking, etc.

Rest of the world again is a good success. We have a 6% topline growth for the quarter as well as H1. Most of the geographies have shown growth, this number could have been much better if it had rained well in Australia. Australia has been very, very dry and it is a big subregion for us and any setback there really impacts. But Africa, South East Asia and China had a growth for us. Several new registrations in the region again important products for us, our high stake molecules, they are driving this growth. We also got our registration of Lifeline reinstated in Sri Lanka after a lot of effort and this we see as a big scope going forward in this country. So that is on Asia.

Then North America, as I mentioned earlier was unusually dry, their sowings were delayed by 30 days, which affected pre-emergent herbicide consumption and UPL has a big portfolio in pre-emergent, so there was an impact of that, that is the reason you see smaller growth than we had expected. Although, we have seen growth. What is encouraging going forward is that we have received four very important registrations in North America, which will now be launched in the next season. These are all differentiated unique products and not me-too's and this should give impetus to our growth in the next season. We also plan a launch of another product that we got registered in Q1, as soft launch. So, there are several products in the pipeline for North America, which is very encouraging. So, therefore we have started our new season now in October and we hope to have a decent growth in Q3, Q4. So, with that I give the call back to Anand.

Anand Vora: Thanks, Ajit. Thank you very much. With this, we will be happy to take questions. As I mentioned earlier I have with me Mr. Jaidev Shroff, Mr. Rajendra Darak and Ajit and four of us will be happy to take whatever questions you all have. So over to you Nitin.

Moderator: Thank you very much Sir! Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Aditya Jhawar from Investec Capital. Please go ahead.

Aditya Jhawar: Thanks for the opportunity. A couple of questions, firstly on North America, this season has been relatively muted in the sense that there has been little bit delay in the season, but does that essentially mean that we will cover up to a certain extent in third quarter?

Ajit Premnath: So what happened in North America is that because of delayed rains the planting was delayed and that affected a certain class of products, which are essentially pre-emergent herbicides. Now farmers then moved onto post emergent, so some of the pre-emergent products did get impacted, but then our post emergent portfolio, which is Lifeline, etc., we saw a good consumption of those products. But coming to your question the season is now over, so now there is no catching up going to happen and we have now started working on the next season and the campaign starts in October and we start with the pre-bookings, etc., and that is very encouraging. One of the positives for the next season is also because of the shortages this year generally speaking, the distribution is very keen to really book early to ensure supplies, etc. So we are getting a good response for the next season in terms of advance bookings.

Jai Shroff: The government is talking about import duties, we may see some import duties of Chinese products, so we may see some upside on that.

Aditya Jhawar: That is quite helpful. Secondly our entry into Mid-West has been a little bit recently, so does that mean that whatever hard work we have done in the last few years we can see some years of nonlinear growth, which would not be very far away?

Jai Shroff: We are very new in that market, so we expect our market share to continue to grow, a lot of effort is going in, lot of planning is going in. We do not expect many problems and we will continue grow our share there, still very, very small.

Ajit Premnath: Some of the new products that we are getting now registrations, which I mentioned earlier, are meant for this market and this would help us also to strengthen our position in this market.

Aditya Jhawar: Certain book keeping questions, what should we expect for effective tax rate for FY2019 and FY2020 Anand?

Anand Vora: We maintain our guidance of 18% to 20%.

Aditya Jhawar: And what was the reason of the spike in tax rate this time around?

Anand Vora: Better margins in India, which resulted in high tax rate and Q1, Q2 is largely India. You will see more business in Q3, Q4 from the other geographies.

Aditya Jhawar: Last question is that if you can help us understand a little better the exceptional items both for Arysta as well as for others, what exactly this is?

Anand Vora: Well for Arysta, it is largely the legal expenses, which we had to incur on the transaction, so they were largely pertaining to that. Out of the 37 Crores close to almost 25 Crores to 26 Crores is for that. Others are basically some of the expenses, which we have incurred for regulatory fees, regulatory advisors and other professional fees. So that has been for Arysta, and for the other things, which is non-Arysta related largely I would say about Rs. 20, Rs. 25 odd Crores is towards severance pay, we had some redundancies.

Aditya Jhawar: Final question, what was the capex guidance for FY2019 and FY2020?

Anand Vora: FY2019 we have given a guidance of about Rs. 1500 Crores and FY2020 we will give when we announce the results in April during the Capital Markets Day.

Moderator: Thank you very much. We will take the next question from the line of Lakshmi Narayanan from SBICAP Securities. Please go ahead.

Lakshmi Narayanan: Congratulations on a good quarter. I have two questions, you have talked about price increase of 4% in Q2 for 1H it was roughly 2% on a year-on-year basis, now we just heard one of your competitors though they are Indians they talked about how the Chinese costs are thing of the past and how Chinese authorities had war against pollution, etc., etc., but your EBITDA margins are actually held up quite okay 1H also, so can you give us a sense of what this price increase was driven by, is it a mix change or is it a generic increase because everyone else is passing cost input increases led by Chinese control supply concerns?

Jai Shroff: Of course generally speaking oil prices have gone up, raw material prices have gone up because of Chinese disruption and I think you can see all the chemical sector generally is enjoying better profits across., So we have been able to put through some price increases to benefit a little bit.

Anand Vora: And also it is due to product mix, you are right I think we have been talking about and Ajit shared in his commentary there are several new launches, which were done in the last quarter or the first half and there are launches planned for the next season, so we are seeing some good traction coming also, some good margin coming due to the product mix too.

Lakshmi Narayanan: Second question is if you could give us some guidance of margins for the full year and would you be maintaining your guidance for growth also this year?

Anand Vora: Yes, we are maintaining the guidance. As of now we are maintaining guidance on all the three parameters - which are revenue, margins and working capital.

Moderator: Thank you. We will take the next question from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: Sir my question is regarding rest of world, we had seen a double digit growth in the rest of the world in the past on geographical expansion and as well as new product launches, so can we expect a higher double digit growth in the rest of the world in the coming years and what is the strategy for that?

Ajit Premnath: Some of these geographies, where we have new registrations coming in, we have a very decent growth even in this quarter. The numbers are single digits here because the impact of mainly Australia, which is really affected by a very serious drought. The other geographies like South East Asia, Africa, etc., are showing double digit growth and we hope to continue that.

Sumant Kumar: Second question is how is the performance of Glufosinate as Glyphosate is facing a regulatory issue across the globe?

Ajit Premnath: Well Glyphosate is facing some regulatory issues, etc., but it is still in the market in most of the key geographies, so in that sense the product still exists and it sells. But Glufosinate on its own strength is really growing. We are growing the product. More and more acceptance we see for the product especially in America, but also our launch in India has been very successful. It was the first year of Glufosinate in India and we are very happy with the results, so we are able to expand this product quite well irrespective of what happens to Glyphosate.

Sumant Kumar: The growth will be in higher double digit growth?

Ajit Premnath: Sure. It should be.

Sumant Kumar: The Arysta integration cost was Rs.37 Crores, so what will be the total integration cost can we expect?

Anand Vora: We have no guidance on that as of now. Work is going on and we will come back. Every quarter, we will provide you an update on how we progress on it, including the cost, which we have incurred.

Sumant Kumar: Thank you so much.

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

Abhijeet Akella: Thanks a lot for taking my question. Just a couple of quick clarifications, one on the other income it seems a little bit low this quarter, so if you would just talk a little bit about that?

Anand Vora: These accounting standards are still not stabilizing, so last year we had taken the NPV on sales. What we used to do is, reduce it from sales and the second effect of that would come in other income. Now we have been guided by auditors that we do not need to give NPV effect on revenues and therefore the other income to that extent has not got impacted.

Abhijeet Akella: So in terms of the way forward, how should we think about this line now?

Anand Vora: It will be without the NPV effect.

Abhijeet Akella: So what we saw this quarter is a decent run rate is that?

Anand Vora: That is right.

Abhijeet Akella: Second on the a debt, on a y-o-y basis also if I compare with a September last year would the net debt have increased quite significantly, if you could just talk about that?

Anand Vora: I do not think, as I said out of the Rs.2600 Crores, Rs.600 Crores is largely because of the currency impact and then typically about Rs.1300 Crores is working capital, which we feel fairly confident that not only that would get reversed, but you will also see some cash flow is coming from operations, as the next two quarters are always strong quarters for us. Rs.423 Crores is dividend, which was very similar number, even last year. It was, may be slightly less, it was Rs.350 Crores or Rs.360 Crores compared to that is Rs.423 Crores. And capex, we have guided for about Rs.1500 Crores, we have incurred about Rs.800 Crores in the first half, so we feel we are pretty much on track and we will see, of course, there will be a bit of distortion because we expect to close the transaction in Q4, i.e. January to March of 2019 and therefore obviously related to transaction you will see the debt coming in, but otherwise we are pretty much on track. If one has to look at UPL on this basis we will see improvement or reduction in the net debt.

Abhijeet Akella: Fantastic, one last quick thing. The Latin America you have shown very strong growth one more time in 1H, so how has our market share moved in that market now this year?

Jai Shroff: Market share data we will know a little bit later, end of the year, but it has been a very good year and I think we are gaining market share across the board and we have an extremely good portfolio. We have a lot of new product launches coming, so we continue to gain market share, but the data we will come to know only end of the year, but generally the mood is good because they see the benefits of the trade wars between China and US.

Abhijeet Akella: But is your faster growth relative to the market because of your specific product portfolio, all these resistance management solutions and all that?

Ajit Premnath: Yes. That is right.

Abhijeet Akella: In terms of India, what is your estimate of the industry growth and have you outpaced that as well this year?

Jai Shroff: I am pretty sure we have outpaced it, exact data we do not know, we will know end of the year. But we have done very well in the northern part of the country. Southern part of the country is a little more stressed out, but I think our market share growth in the north of India would be quite good. In general, we feel quite excited about it.

Abhijeet Akella: Thank you so much.

Moderator: Thank you. Next question is from the line of Saurabh Jain from HSBC. Please go ahead.

Saurabh Jain: Thanks for the opportunity. Sir is my understanding right that the acquisition related expense this could also be seen in future quarters?

Anand Vora: Yes, of course.

Saurabh Jain: I understand that you would not be able to estimate, but can it be significantly different from what we have reported in the current quarter?

Anand Vora: Yes it will be, this quarter is a beginning you will see some more expenses coming through on integration as we move ahead.

Saurabh Jain: That Rs.20 Crores impact on severance that is only one of impact on the current quarter that could not be recurring right?

Anand Vora: It is a one-off.

Saurabh Jain: It is one-off right, so it would not be recurring now?

Anand Vora: That is right.

Saurabh Jain: And on the Europe and US side if you could please help us understand that the growth, overall revenue growth is about 1% to 2% and there must have also been significantly currency tailwinds that we could have accrued in the current quarter, so I am not able to understand why the growth was so low?

Rajendra Darak: I think you should compare it on the six months because to some extent it is also quarter impact.

Jai Shroff: Currencies are just involved.

Rajendra Darak: Look at our half year number for Europe is 7% when the industry would have degrown.

Ajit Premnath: Yes, so most of the industry because of the dry season, the cereal fungicide market and the oilseed rape market was really very down. We do not play in that segment and therefore some of the other players are very strongly impacted.

Saurabh Jain: Any commentary on the volumes whether volumes have increased or it is more of because of pricing?

Jai Shroff: We had some price improvement, but it is a very small quarter, so this last quarter is a small quarter. So I would not worry too much about what you are looking into that. In general, we believe that Europe we have been able to put some price increases, but the next two quarters are the big ones for us in Europe and the real impact of our business efforts will be seen more in the next two quarters. The currency also in the first quarter, we have a little more sales than even in the second quarter. Second quarter is, let us not take much that is not serious business.

Saurabh Jain: Just one last question, I think in the slide it was mentioned that on the India side there is state interference in certain use of registered products?

Jai Shroff: I think in general, the state gets involved in, there are all the regulators and everything keeps getting involved at the state level, though it is not a state subject. So we have been dealing with that and it is not much, normally it happens, this year it is a little more.

Saurabh Jain: What products this interference is happening and is it also impacting the sales?

Jai Shroff: It does impact sales a little bit, but since it was a very dry year, there was not much pest problem in cotton, it was much reduced level of pest pressure. So in that situation we cannot attribute that to either or it is mainly to do with the pest pressure. Because if there is a pest pressure then everybody panic. So while the government agencies were trying to influence what the farmer should use, what not to use, but that is much easier for them to do in a year where there is not much pest pressure. But in general we see that will change when there is a problem, like last year they had issue on cotton, two years, three years ago there was issue in north on cotton again. So when there is an epidemic, which is every two, three years then the situation changes, they need a lot of product.

Saurabh Jain: So would this considerably impact the growth on the geography or it will not be significant impact?

Jai Shroff: No.

Saurabh Jain: Fine. Thank you so much.

Moderator: Thank you. Next question is from the line of Vishnu Kumar from Spark Capital. Please go ahead.

Vishnu Kumar: Very good evening Sir. Thanks for your time. In the remarks you did mention that we are starting to run product campaigns across various geographies, now that we have got approvals in certain countries for Arysta, will our campaigns include Arysta's products as well and the second question is do you also start getting access to some of the distributors, which were hitherto not available?

Anand Vora: No, nothing as of now, till all the approvals are in place, we operate as separate companies, we in fact operate as competitors. So there is no access to their distributors, no access to their products and neither can we plan the product campaigns, etc. So we need to wait for all regulatory approvals from relevant countries before the formal closure of the transaction and that is when the day one begins and then we work as one company.

Vishnu Kumar: So in a sense for the North American market would actually be kind of difficult to push through additional sales and probably the LATAM for the next year season is where we can get to because we cannot integrate until then, is that a right thing?

Jai Shroff: There is a lot of planning going on in terms integration. We are not allowed to sell each other's products today even though we have approval in Brazil, the lawyers do not allow us to share certain, we are not able to integrate legally. But we believe that, the focus right now is to plan for day 1 and to plan for year one and plan for year two and that is where our full focus is. We think that we are well on track and probably ahead of most other companies in this situation in terms of our ability to understand the opportunities and capture the cost synergies and even on the sales synergies. So it is all on track, we are very excited about that and we see a lot more opportunities than we originally saw, but we are not allowed to operate the businesses together today.

Vishnu Kumar: Fair enough Sir and in the Latin American business we have grown quite strong, is this growth largely to do with advance orders getting placed, which would mean that second half also will continue to grow at these rates or probably we should kind of start thinking that this pace of growth may not be there?

Ajit Premnath: So there are certain markets where we have advanced sales for the coming season and there are certain markets, which is ongoing sales. So, it is a mix of both. And in Latin America the main season will start now and we are actually preparing for that and therefore distributors place orders early, we start supplying and this will continue.

Jai Shroff: We expect the second half of the season to be equally strong.

Vishnu Kumar: Just one last question, are we going to have any new plants coming up in the India Dahej facility in second half this year, technical plants coming live for the investment?

Jai Shroff: We have plants commissioning all the time, so we have a large capex process, but not in Dahej, Why do you ask Dahej?

Vishnu Kumar: Wherever the plants are coming up. In India we are going to have some plants coming up, second half?

Jai Shroff: Yes, we have plants commissioning, not coming up.

Vishnu Kumar: Thank you Sir.

Jai Shroff: We are in the last stages of commissioning, we have actually lot of plants commissioning in the next six months. We just commissioned new expansion in France this month.

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

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

Girish Achhipalia: Thanks for taking my questions. First one is basically on raw material, you said in the opening remarks things are getting tighter for the industry, just wanted to understand how differently are we positioned to benefit because we have certain in house raw material as well, so just wanted to understand how do you see at the margins going forward, do you expect the rate **variance** to continue to be positive at these levels or even higher levels?

Jai Shroff: So I think two things, you obviously are tracking chemical industry, generally speaking all chemical industry has seen some improvement in margin and we believe that we as one of the largest manufacturers of chemicals here in India will benefit from that. Also I think the impact of currency also will benefit us in general and also we believe that second half onwards we have been putting prices up across our portfolio and we see that is really benefiting us in the next two quarters. So I think we are quite enthusiastic about the business prospects.

Girish Achhipalia: Secondly, we have got new product launches across various geographies from what you can share in second half for North America and LATAM specifically and you said certain things in Europe as well, so broadly, which geography excites you the most given the new launches that you are launching in second half now?

Ajit Premnath: We are right across the globe and most of the new products that we are now getting our mixtures etc., differentiated offering to the market, Latin America, North America, very exciting because in North America you also get registrations faster than many other geographies and we will see a lot of products there and also across Africa, South East Asia, which are relatively smaller markets, but each market is exciting.

Jai Shroff: I think in the last three, four years we have been aggressively following innovation rate, benchmarking ourselves and so we have a lot of products coming in pipeline, so we are trying to churn our portfolio on a quite aggressive basis. So we are trying to bring value added products and some of you may be aware of our MMX strategy in Brazil and few other markets. But we have continuous flow of products and it is across the world, so it is very difficult to be specific. Generally speaking we are bullish, we have had very successful product launches in India, the first year launch of many products have been very, very successful. We think we will continue to gain market share in India. We think we will continue to gain market share in Latin America and even in the US region, we think we will continue to gain market share.

Ajit Premnath: As we discussed in April we talked about resistance management, not only fungicide, but also insect resistance management and weed resistance management. So our portfolios are now getting all of these in various geographies that makes it very exciting.

Girish Achhipalia: So just on Latin America would you want to throw a number here in second half constant currency growth, given that you had a little bit of base effect for the full year entirely, but it is a second half because it is main season and also considering the fact that Argentina you have rightly pointed out that you are kind of trying to manage things a little better over there given the currency volatility, how do you look at the constant currency growth in that market given inventory where it is today?

Anand Vora: Girish, we definitely cannot come up with any numbers on these things. But as we have put in the presentation we remain positive on Latin America, seasons are normal expected good season, there is a good demand for products and probably the trade wars between US and China is helping Latin America. We are excited we remain positive.

Girish Achhipalia: Final book keeping one, is there any FX income or loss in the interest expense?

Anand Vora: There will always be something there I can give you those numbers. On the finance cost, we have an exchange impact of about Rs.114 Crores this year and in case of other income we have an impact of about Rs.102 Crores.

Girish Achhipalia: And the Y-o-Y numbers please if you do not mind?

Anand Vora: These are Y-o-Y numbers, like-to-like last year was Rs.101 Crores on 17 in case of other income, so again Rs.102 Crores it was 101 last year and in case of finance cost it was 28 was Rs.140 Crores.

Girish Achhipalia: Sorry if I may allowed because the net debt has risen quite a bit in first half and rightly because you have been planning for the season ahead, how do you see the net debt to EBITDA for the core business if you want to probably talk about fiscal 2019?

Anand Vora: We keep seeing improvements in net debt to EBITDA over the last year and I think there is no reason to believe that it will be adverse. Because profit margins are improving and so is the cash flow. But the net debt number will eventually get reduced.

Moderator: Thank you. We will take the next question from the line of Amit Murarka from Deutsche Bank. Please go ahead.

Amit Murarka: Good evening everyone. Just on Latin America obviously an outstanding growth there actually, two things can we like firstly say that the inventory overhang is completely over that is there in the system and secondly the tie-up that we have forged with Bayer last year is it getting stronger this year versus some perception that may get weaker?

Ajit Premnath: Answer to your question is yes to both the questions.

Jai Shroff: We were very tight on inventories last year it was a tough year and so we are able to slowdown our product in the market and that is benefiting us this year. And the Bayer program is going well, other people are joining the same sort of a program, other companies, so we are seeing good traction on that.

Amit Murarka: Great to know and also like from your annual report I have gathered that last year the revenue or basically the volume sold to your associate companies in Sinagro had fallen quite dramatically may be because of the restructuring that you are doing in that company, so has that volume come back in this quarter?

Anand Vora: We remain extremely confident now that we have put a new management in place, as you would have also seen in this quarter, the impact, which gets reflected in the income from associate. There was a fair amount of loss same quarter last year, it has significantly come down and that is because of improvement in performance in Sinagro. So this year business is back to normal and certainly in line with that we will see a fair amount of pickup for sale of our products.

Amit Murarka: So, it is fair to assume that the demons in Sinagro have been kind of laid to rest now?

Anand Vora: We can say that.

Amit Murarka: Thanks.

Moderator: Thank you very much. Ladies and gentlemen that was the last question. I now hand the floor back to Mr. Nitin Agarwal for closing comments. Over to you Sir!

Nitin Agarwal: Thanks. Anand, you had any last comment before we close the call?

Anand Vora: We would like to thank everybody for joining us on th call and if anybody has further questions they can either reach out to Ashish Narkar or myself and we will be happy to answer the questions. Thanks for joining us on the call and thanks Nitin for arranging this.

Nitin Agarwal: Thanks everyone for participating in the call and thanks to the UPL management team for participating. Thank you everyone. Have a good day.

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