



“Q2 FY14 Earnings Conference Call of UPL”

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Moderator

Ladies and gentlemen, good day and welcome to the Q2 FY'14 Earnings conference call of UPL 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 this conference, please signal an operator by pressing “*” and then “0” on your touchtone phone. 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, Nitin.

Nitin Agarwal

Thanks Mosin, good afternoon everybody, a warm welcome to everyone for joining us for UPL Limited's Q2 FY'14 post-results conference call hosted by IDFC Securities. On the call today, we have representing UPL Limited, Mr. Rajendra Darak, Group CFO, Mr. Anand Vora, CFO, Mr. Sagar Kaushik, COO and Mr. Nitin Kolhatkar, VP Finance. I hand over the call to the UPL management team to take it forward. Please go ahead, sir.

Anand Vora

Good afternoon everybody. This is Anand Vora here; I am the CFO for UPL. Since this is the first time I am taking the call, so I just thought I'll introduce myself.

I'll go straight to the results. I'll start off with the comparative results for Q2. Gross revenues at 2,360 crores are about 25% over that of the similar period in 2012. Domestic revenues are up by about 30% whereas international revenues are up by about 24%. Gross margins at about 917 crores are up by about 26% vis-à-vis that of the same -- for the same period previous year. Overheads at 463 crores are about 24% above that of the same period last year -- previous year. EBITDA at 454 crores is about 29% above that of the same period last year. The margins have improved to about 19.2% of sales as compared to about 18.7%, a 0.5% improvement in the EBITDA margin. This is in line with what we have committed, about 100 basis point improvements over the entire year this year. Depreciation and amortization at 97 crores is up by about 18%, and interest and finance cost at 121 crores is up by about 39%.

The profit after tax at 236 crores is 29% above that of the previous year, provision for tax at 58 crores is about 26% above, profit after tax at 178 crores is about 30% above last year same period and profit after tax and associated income at 186 crores is about 35% over that of the preceding year of 138 crores.

We have an exceptional item of about 20 crores and profit after exceptional item is at about 166 crores which represents about 20% above that of the previous year.

Moving on to comparatives, by region, India at 638 crores represents 27% of the overall revenues and is up by about 30%. Latin America at 744 crores representing about 32% is up by about 26%, Europe at 316 crores is representing 13% of the total revenues is up by about 17%, rest of the world at 275 crores representing 12% is down by about 9%. This essentially is on account of a timing issue as we had a very robust Q1 in rest of the world. North America at 387 crores is about 16% of the total revenues representing



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a robust 70% jump over that of previous year's same quarter. Thus the total revenue of 2,360 is up by about 25%.

Moving on to H1 results, gross revenue are 4,842 crores representing a 17% growth over that of the first half of the previous year, domestic revenues at 1,407 crores are up by 26% and international revenues of 3,435 crores are up by about 14%?

Cost of goods sold at 2,972 crores represent a 17% increase over that of the H1 of previous year and gross margins at 1,870 gross represents about an 18% growth over that of the proceeding year.

Overheads are 933 crores, has grown by 14%, and EBITDA at 937 crores has grown by 21% and EBITDA margins at 19.35% have improved from 18.73% during the same period in the previous year. So there has been an improvement in the margins by close to another 50 basis points over that of the previous year's H1.

Depreciation and amortization at 183 crores are up by 18% and interest and finance charges at 257 crores are up by about 30% over that of the previous year. Profit before tax 497 crores is up by 18%, provision for tax at 126 crores is up by about 9%. Profit after tax at 371 crores is up by 22% as compared to that of the previous year. Again profit after exceptional items is at about 360 crores representing a 16% jump over that of the previous year same period.

Breaking down revenues for the first half by region, India at 1,407 crores represents 29% of the total revenues, a 26% growth over that of the previous year. Latin America at 1,197 crores representing 25% of our total revenue is about 20% above that of the previous year. Europe at about 814 crores is about 17% of our revenues and a growth of about 18%. Rest of the world at 590 crores is about 12% of our revenues and a growth of 13%,and North America at 834 crores representing about 17% of our total revenues and a growth of about 3% over that of the H1 preceding year.

Giving the sales analysis, this for the first half it's about 18% growth in sales as mentioned earlier of which the exchange impact is 8% and about a 9% growth in volume and 1% growth in prices.

Moving to working capital, here again as you would notice that while inventories are about 110 days as compared to that of the same period in the previous year at 96 days. So there has been some increase in inventory and this is essentially because we are consciously building up inventories in Europe to meet the demand in Q3 and Q4 for our products, whereas receivables are at 109 days at the same level as those during the last year. So we have been able to maintain our receivables at the same level in number of day's terms.

Payables have increased to about 118 days as compared to 92 days in the previous year. This has been possible because we have been able to negotiate better terms with our suppliers. This has resulted in a



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reduction in net working capital to about 101 days as compared to 113 days which was there in 2012 during the same period.

So, overall when you compare that with March, there has been a marginal increase in working capital by about 12 days, but when you compare it with 2012 same period, there is a reduction of about 12 days in working capital. Of the working capital increase, we would like to share with you that the increase as compared with March of about 381 crores of which almost about 111 crores is on account of currency depreciation. So basically there is a difference of about four days. So, of the total 12 days increase, just about eight days is absolute terms increase vis-à-vis March 2013.

With this, I will hand over to Mr. Sagar to take us through the business review for the last quarter and for the first half.

Sagar Kaushik

Good afternoon, this is Sagar Kaushik, I have been on the calls also before. So I will give a brief description about the -- our regional performances, a little bit flavor of the market performance and our performance. So as you see these slides are structured, which we have seen. We are talking about the region wise, that is the geography wise, the growth for the quarter 2 and also for the full half. So H1 part is also there.

India, we have all witnessed the excellent widespread monsoons that increased the planted area, practically in all crops giving more opportunity for placement of the product and to a good extent consumption of the product in the first half. So that has been quite good. I need to mention that, there have been some excessive rains, and this year we all know that, this resulted into less number of sprays, in cotton and some other important crops in the western region, and also affected the northern part of the region. So therefore, the industry carries in our opinion some inventories etc., in the market, though it's not a huge concern for us.

So the other activities, the key activity we had in India, that we have launched two outstanding products under the brand name of Ulala and Atabron. So both are insecticides, Ulala is a sucking insecticide for the sucking insects, which are sucking the sap from the plant. The other one is for the chewing insects. So it fits very well as a program -- to our customers and to the growers, we would offer both the products and leverage each other for the respective segments.

We have been focusing as I have been mentioning before on the power brands. So we have now almost 5 brands, which get special recognition from our growers, and also the distribution channel and accordingly the resources, are allocated to strengthen them. And just one example, our Phoskill which is known to be a premium brand, it's already worth equal to 100 crores of sales. There has been cost of goods impact due to the rupee devaluation, and we have been able to pass on as a selling price, more or less I think we have achieved that. So that's about India.



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And I go now to Latin America; Latin America for us is Brazil plus, all the South American countries put together. So this year, there is a good prospect which the industry expects, especially in Brazil, and also certain regions or certain countries of Latin America. So one could see that the business has been slightly preponed in Latin America, and so therefore, you see a very strong reflection of even the market performance for Latin America.

So what I am told through some industry figures etc., the growth in Latin America is also close to 20% for the industry. So therefore, we are pretty much in line there. And, for us also, the last quarter has been pretty good, because we were able to deliver the product on time, and which is quite a challenge to supply to Brazil from different supply centers for us. So that actually helped in the placement of the product on time.

We have given special focus to our key product Mancozeb, as we have the production facility in Colombia. And so, Colombia has been now well aligned with our customers who are based in Latin America, so it becomes a very efficient source, and it helps us in expanding the customer base and also retaining the existing customers for Mancozeb, and Mancozeb is a pretty important product there, as some of you know, that some big plantations like banana and all they are big consumers of an excellent resistance management product like Mancozeb.

We have some specific markets, countries like Mexico, where we go with one face to the customers with crop protection, as well as seed products, and this leveraging is also proving to provide excellent growth opportunity in such markets like Mexico. We have been cautious of improving our margins, and therefore, we did not bet for glyphosate too much in this year. And so, there is a reduction in sales of glyphosate, which is a commodity herbicide, and that helps us to also improve our margin in this region. We also are looking at some of the new opportunities in the specific markets like Ecuador, especially with our banana program, which has been already highly successful in the key spots of banana which is Costa Rica.

Now we shift to Europe; Europe has been extraordinary -- very strange kind of climate this year. It has the extended winter, harsh winters and some of the European countries they are mentioning that this year they have not seen spring at all. It was extended winters and then entered into summer. And this resulted in the less consumption of some of the key products like sugar, beet, herbicides, and also herbicides in cereals. So overall, the markets have suffered in Europe, and for us it was the issue with regard to the sugar beet crop, and the consumption of the herbicides were almost one spray less. So that affected the European market and our business in that specific segment.

However, we have excellent products, excellent fungicides for vine that is grapes, and also for potato. So potato markets -- potato sales have been quite normal, while we have been able to improve our position in grapes with our fungicides, and this showed really good results. We have improved our Mancozeb related brand sales, and also some of the institutional performance.



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There is some grouping we have done geographically, the CIS part, which is Russia and Ukraine, and the surrounding couple of other countries. This we have put them as a part of European region. So that also brought some additional sales. As far as the Europe region is concerned, this is not too much. But I must mention this to you.

Overall, sugar beet, I already mentioned to you, for the industry also it's a concern that the trade or the distribution channel, they could not exhaust, they couldn't exhaust the sugar beet herbicides in the previous season. So they will carry some inventories.

So we have then rest of the world. Rest of the world performance on the H1 basis is 13% growth. We are moving quite normal, as far as the growth in China and Southeast Asia is concerned, we grow quite good growth as expected, and there have been some seasonal issue in the first quarter with respect to Australia. We have caught up in the second quarter, and now in the second half of the year, we think we could offset some of the losses of the first quarter in Australia.

A good revival we have for fungicide business in Bangladesh, the next door neighbor, and we hope to do -- further improved position there. New distribution platform, we are trying to setup with an excellent partner in Pakistan, and the steps with regard to registration etc, they are all as part of the next steps there.

Egypt and Sudan, Iran these are the difficult terrains. We have some kind of embargos for doing business in couple of countries. We have the political instability in Egypt and this is continuing almost for nearly one year now or even more and this has not lifted. So this has also affected our business in RoW. We are working on a Grow Africa program and we are working on specific well focused strategies on certain geographies, certain countries and certain crops and we should be completing this target by end of November to provide a focused approach for Africa.

The last region I want to share with you is North America. North America as compared to last year this year the winters were prolonged and there was a delayed spring and in the U.S. if there is a delay, there is a huge issue because then the growers are hugely concerned about any frost issue coming in the month of September/October. So therefore the crops are delayed and at the time of harvesting, again there is early winter, then they could lose a lot. So this creates lot of instability, insecurity in the mind of the growers. So altogether for crops like soybean, corn, there has been -- the total production from the area point of view, from the yield point of view, it has affected the North American market. And not only the row crops or the broad acre crops, but also the fruits and vegetable or the horticulture segment has been impacted. So it has been pretty erratic weather as far as North America is concerned, not good for the North American market.

Actually we are very strongly present in the horticulture market and where we saw the worst dry conditions, which normally does not happen in the western part of the North America. So nevertheless, in the available opportunities, there is a big issue with regard to the growers on how to control the glyphosate resistant weed and luckily we have a good portfolio and that helps in the resistance management of the



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weed, both for soybean as well -- and also corn. And put together, we have been able to offer three products that gave us really a good limelight, and we have been able to recover part of the business.

And we had another flagship company of UPL which is RiceCo that is focused on rice crop and we have been able to increase the treated area with our herbicide and that also provided growth and RiceCo is also headquartered / consolidated in the U.S. So therefore altogether, we had a very good second quarter, and to some extent we have offset the first quarter problems and we have the first half growth of 3% in North America. So that's the end of my comments on the business and the market. I give it back to Anand.

Rajendra Darak

I think one of the questions which you always have on the call for us is the debt figures. And I think just to give you the update on those numbers, we started the year with 4,200 crores of gross debt and during the six months, we have reduced the gross debt by 400 crores to about 3,800 crores in the books but our debt is still at around 4,100 crores which is including the 300 crores of the translation loss from the revaluation of the currency. And on the net debt, our figure has increased from 2,500 crores to 2,800 crores, that's again purely an increase out of the revaluation of the currency. So our gross debt is down by 400 crores and our net debt is at the same level as at the start of the year.

And from here we will be happy to take any more questions from you.

Anand Vora

Just to add further, the cash position stands at about 1,300 crores of which close to 500 crores are kept as deposits with banks -- fixed deposits with banks. That's all from our side. Thank you.

Moderator

Thank you very much, sir. We will now begin the question and answer session. The first question is from the line of Himanshu Nayyar from Quant Broking.

Himanshu Nayyar

Good afternoon gentlemen thanks for taking my question, as Mr. Kaushik has given quite a detailed update on the performance - operational performance. So most of the things are clarified, just a few questions on the financials clarifications I would say. So firstly what would be the FOREX impact on our interest and finance cost, the same number which was about 48 crores last quarter?

Rajendra Darak

It's about 20 crores for this quarter on a like-to-like was 11 crores, 21 crores this quarter and 11 crores for last year same quarter.

Himanshu Nayyar

So sir, how do you account for this, I just wanted to know that is, is this MTM loss or an actual...

Rajendra Darak

This is a combination of everything, it is to some extent an actual loss and to some extent it is also a mark-to-market on the derivatives and other costs. It's the combination of both...

Himanshu Nayyar

But on a core basis what would be your average cost of borrowing so that we can calculate what should be the-- I mean core level of interest that should be -- we should be paying on our debt, sir?



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- Rajendra Darak** We have been I think maintaining that a round 7% is our cost of borrowing. But as you said in our finance cost you also have cost -- finance cost and finance charges plus cash discounts which we offer to customers, all that gets classified as part of finance costs.
- Himanshu Nayyar** And sir, secondly I wanted to understand on the CAPEX front, I mean after the first half, what is our guidance now on CAPEX and if you can just differentiate between the expenditure we will be doing on the registrations and increasing our capacities?
- Sagar Kaushik** I think our guidance there has been around 450 crores, between 400 and 500 crores and about 2/3rd of that will be on plant and machinery and 1/3rd of that would be on our registrations.
- Himanshu Nayyar** And sir, what's this one-off of 20 crores on account of, if you can give some more details on that amount?
- Sagar Kaushik** That was the compounding fee which we had to pay to the Reserve Bank of India on some of the guarantees which we had issued to our subsidiary and they felt that we had not complied with some of the procedural aspects of the guarantee. So this was the fees which we paid to Reserve Bank of India on the guarantees which we have issued to our subsidiary.
- Himanshu Nayyar** And going forward, do we expect anymore expenses on this front?
- Sagar Kaushik** Not on this, not in Reserve Bank because this was -- last 10 years guarantees were reviewed by the Reserve Bank of India and whatever were supposedly deficiency, this is the fee which we agreed to as a part of the compounding process and we have paid that.
- Himanshu Nayyar** And sir, just one final question to Mr. Kaushik is, you can just broadly on the market front just let us know like over the last say couple of years how our market shares moved in across our geographies, if you can just give a rough estimate so that we get to know what is that, if we are moving on the right path because especially in Latin America?
- Sagar Kaushik** You see I think the last investors meetings which we had, so in that there was a presentation and which I think shared this information. We have shared this information on the market performance in the last four years in the individual geographies, which is North America, South America, India, ROW, Europe and also from the global perspective. So that was already shared. So if want me to repeat, I will repeat, but in general, I would say, on an average we moved up our market share by about 1%, I don't have that data right in front. But at a global level, I'm saying, but I am bit spontaneous person. So I do give you some response. So -- but in terms of the differences I think in India we have been able to move our market share significantly and we have improved our market share significantly also in Latin America and due to -- we are pretty young in Brazil. So therefore, the growth also one could imagine to be much stronger. So these two regions have supported the improvement of the market share in the respective geographies and overall



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by about 1% And Europe, we have been little bit static as far as the market share is concerned. So that I think hopefully gives you some flavor.

- Moderator** The next question is from the line of Balvinder Singh from Prabhudas Lilladher. Please go ahead.
- Balvinder Singh** Congrats on a good set of numbers, couple of questions from my side, when was this Ulala and Atabron launched, if you can just clarify that.
- Sagar Kaushik** Atabron has been launched this year. So this year, specifically I think it's somewhere in July or so we launched the product in India. And Ulala was -- there was a soft launch last year. And so, the product was already introduced in the market last year, but very limited quantity as we wanted to focus more in establishing the technical aspects etc.
- Balvinder Singh** So is this an in-licensing product?
- Sagar Kaushik** That's correct.
- Balvinder Singh** And from which global MNC has it been in-licensed?
- Sagar Kaushik** Ishihara Sangyo, ISK.
- Balvinder Singh** Okay, and Atabron.
- Sagar Kaushik** Also from them.
- Balvinder Singh** Okay, ISK. So I mean, as a strategy, traditionally, we have been a generic company, so what is the strategy going forward of launching more in-licensing molecules?
- Sagar Kaushik** Well, I think the strategy is very clear, that we are now the strategic partners for -- whether Japanese or some other company. So therefore, that is of course, our portfolio and the pipeline is building. And at the same time, we have our own patented innovative products already in the market, and they are not generic. You can't put them into generic. I already in my presentation talked about five brands. So we have made excellent brands out of it, which creates value at the level of the grower. And so, they are giving additional value and accordingly they are also priced. So we might have still certain component, which you can call the true generic, and which are also helping because -- the growers they need it. So therefore, we have the proprietary products, which are significant part of our business, and then we have the branded product, branded portfolio, which I mentioned about five products on the top. We also have some other brands under further development, and then some generic component is still there.



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- Balvinder Singh** Sir, this Phoskill will be alone contributing around 100 crores, and the rest four will be collectively contributing how much?
- Sagar Kaushik** Well, I don't want to go into those details, but you can benchmark that -- a product must go to that level, that's our passion.
- Balvinder Singh** And Phoskill is currently a 100 crore brand or are we looking at it in the future.
- Sagar Kaushik** We are looking at it.
- Balvinder Singh** Currently it will be say in the range of 40, 50 crores or less than that.
- Sagar Kaushik** Your guess is not correct.
- Balvinder Singh** So will it be on the higher side or lower side?
- Sagar Kaushik** This guess is correct. It's on the higher side, it might be higher, we are closer to the number but we are not disclosing.
- Sagar Kaushik** Around 80 crores or something like that.
- Balvinder Singh** And recently we have heard news of inventory getting built up in the North American market, so despite that we have achieved quite good growth rate in this quarter as such, so is it going to impact growth in FY15 as such?
- Sagar Kaushik** No, you see, every region or every country has their own, let's say sales phasing. For example, India let me give the example. The first financial quarter, that is April to June, there is not much of consumption which takes place, but the sales are always high of the company because people are gearing up, supplying placements etc. So similarly, in the US, the season or this activity, they call it the sales program, that commences sometime in September, so end of September. So they have October, November -- so these sales, they go as per the program for every company. So therefore, this is just quite normal as far as the US is concerned. And you mentioned above the inventories, so we do not have any concern as far as the inventories are concerned in the US, these are all in line with our expected forecast.
- Balvinder Singh** And sir, what kind of price increase have we taken in India?
- Sagar Kaushik** In India, but we have said average our price increase is 1%. I don't know, whether you need very specific information on India.



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- Rajendra Darak** I think as Mr. Sagar already mentioned, we have tried to at least compensate for whatever were the cost increases due to the devaluation. So that's something we have made sure, that at least, we are able to pass on the cost increases. And obviously, the proprietary product or the branded product, their pricing is totally more on value addition on a competitive basis.
- Balvinder Singh** Sir lastly I missed that FX; there is a loss of 28 crores in this...
- Rajendra Darak** 21 crores versus 11 crores last year on the same quarter-to-quarter.
- Moderator** Thank you. The next question is from the line of Parth Shah from ICICI Bank. Please go ahead.
- Parth Shah** My question is from industry point of view, I just wanted to understand how is the seasonality in the agro chemical industry quarter wise, which quarter are relatively better off in terms of revenues, etc.
- Rajendra Darak** Which market you are talking, now that is very specific question, if you ask clearly we can answer you better. India, if you are asking...
- Parth Shah** India.
- Sagar Kaushik** So I think India has just distributed Kharif and Rabi.
- Parth Shah** Kharif would be Q1 and Q2....
- Sagar Kaushik** Kharif will be Q1 and Q2, and generally it is 70% of the total consumption of the product. And Rabi is Q3 or Q4. So you can take it, Q3 maybe a little bit of overlapping in Southern part of India, so that is the phasing of the product.
- Parth Shah** So that is 30%?
- Sagar Kaushik** Yes.
- Moderator** Thank you. The next question is from the line of John Bugg from Macquarie. Please go ahead.
- John Bugg** A few questions. You were discussing the rest of the world section, if you could repeat your comments for China and Southeast Asia and Australia, the first two dot points that you were discussing there...
- Sagar Kaushik** So you want me to comment on the performance of these specific countries or you have some more specific questions.



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John Bugg We just missed the comments completely. We had about a minute and a half silence whilst you were discussing China and Southeast Asia, and the growth in Australia. If you could give me a little more detail on those points...

Sagar Kaushik As far as China is concerned; again we are relatively a new player there, with regard to the domestic business in China. So therefore, our growth has been pretty strong consistently in the last I would say this is our fourth year, where we have identified China also as an important geography or the country to participate. So we are in line with our expectation; and our expectations are not modest, but they are quite good expectations there.

Southeast Asia, we have two models, we are working on B2C model in certain countries, which includes Indonesia, which includes Vietnam and also includes Philippines. So these are the three countries we have the B2B model and the outcome and the results are pretty good and in line with – we have been launching new products etc. We have even a formulation plant close to the market in Vietnam. So rest of the markets like Thailand and Malaysia these -- and couple of other smaller markets there we have more B2B business, where we have our technical or the bulk formulations, this we supply to selected companies which act as the national distributors as well and they sell in their own brands. So we have worked with these two models there.

As far as Australia is concerned, what we mentioned is that, we had -- difficulty with regard to the seasonality factor in the first quarter to some extent we have been able to offset it in the second quarter, but still we need to improve the business in the second half of this year, and we hope that we should be able to catch up the difference of the first half, that's what I mentioned.

John Bugg Can I ask a question, that region, the rest of the world, did that include CIS previously?

Anand Vora Yes.

John Bugg How large was it?

Anand Vora CIS, well, this is about -- not much I mentioned, I think it is between just \$3 million to \$4 million.

John Bugg My next question on Latin America, but not a very strong growth there for the past three quarters and a very good result this quarter, is the season being dragged forward any or do we see a similar growth rise in the '20s for the quarter that we are in now, the December quarter?

Sagar Kaushik Well, I think on the whole we do expect that the -- I mean I can talk about the market expectation, so the market expectations are quite robust in the third quarter, so therefore, generally the industry key players they already have the confirmed orders in hand, not for the 100% of the volume, but at least two-third of the volume. So the remaining one-third remains as a suspense depending upon how actually on the ground



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the product will be used. But the expectations are quite I would say strong as far as the third quarter is concerned. And I don't know as far as the fourth quarter is concerned because it will much more depend on the prices of corn and cotton. So that is I think something to be still watched in the next couple of years, the cotton prices are coming back in the world. So therefore, one could expect a better cotton area as far as Brazil is concerned, but that doesn't mean actually much because the total area is about a million hectares. So 30%, 20% increase then its 200,000 hectares. So -- but corn prices I think could -- that volatility one has to watch, and it's difficult to comment at this stage.

John Bugg

Your guidance on margin expansion for the first three quarters, the margins. have expanded about 70 basis points, it's not that far short of your guidance of 100 basis points. I was just wondering for the second half, would you be more confident in holding that 1% for the second half or do you see any factors that would pretty catch-up for the full year to drive that 70 basis points up towards 1%?

Rajendra Darak

We think we should be able to catch it up towards closer to the 1% / 100 basis points what we have been guiding.

John Bugg

And what factors would help that, seeing...

Rajendra Darak

Its also function because we think this year again the Rabi in India will do better because of the good rain, water tables in India, the reservoirs have good water, so India will do much better in the second half relative to what it was last year. Last year we had the drought impact continued more so also in the second half apart from Kharif getting impacted. And the two big geographies which really play a big role for us are Europe and US again; we believe we should do equally good in the second half for us. Between these three things we think the margins are much better for us as a business case for three of it.

John Bugg

Last question, Latin America, it can be very large in the next quarter that's normal seasonality. Margins for that business at the EBITDA level had strong support for the group, or did that come in slightly below the broader group?

Rajendra Darak

No, I think we have seen a much better improvement on our operating margins from Latin America on a like-to-like basis there. Yes, if we compare to the other broader group, if you are referring to the big guys, our margins are on the lower end of that spectrum, but with the product portfolio improvement and our ability to bring products on time are helping us to really improve the operating margins in that region specifically. And #2 is I think, as Mr. Sagar also mentioned, is that our focus we are really trying to reduce the volume of glyphosate as much as possible in the mix which is really not a core product from UPL portfolio, but it's a necessity to be a part of that game in this market. So we do have to be, but we are also trying to restrict the volumes and the combination of these two things we think should help us improve margins or maintain margins at better level than last year.

Moderator

Thank you. The next question is from the line of Abhijit Akella from IIFL. Please go ahead.



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- Abhijit Akella** First, on the interest expense you explained that 21 crores out of this 121 is FX related?
- Rajendra Darak** Yes.
- Abhijit Akella** So excluding that the interest expense seems to have picked up to around 100 crores this quarter as compared to around 87 or so last quarter, so what would the drivers of that have been?
- Rajendra Darak** I think the drivers there have been two or three, #1 is exchange, if you take between last year to this year the exchange also because your same dollar interest is being repriced and all, so there is -- about 6 to 7 crores is the impact out of that, then the cash discounts which we've offered to customers to pay promptly or to pay early, that has gone up by about 5, 6 crores. And then other costs would have gone up of the balance, because also the borrowing in Brazil was higher than last year, where we borrow at much higher rates than India...or our overall average now.
- Abhijit Akella** Going forward, wouldn't it be reasonable to assume a run rate of closer to 100 rather than 90 or...
- Rajendra Darak** We think we are okay to come closer to the 90 number, it's just that yes this quarter again we saw that, but we've also reduced our gross debt this quarter by about 400 odd crores, so that should also help us going forward.
- Abhijit Akella** And just to make sure I caught that gross and net debt numbers correctly, the gross debt on the balance sheet as of now, post the FX revaluation effect is 4,100 crores, is that correct?
- Rajendra Darak** That's right.
- Abhijit Akella** And the net debt is.....
- Rajendra Darak** 2,800 crore.
- Abhijit Akella** Got it. Also just a couple of smaller items on the P&L. The DVA profit -- the minority interest attributable to DVA seems to have dropped YoY. So is there a reduction in the profitability there and is that mainly because of interest cost or is it an operating item
- Rajendra Darak** Reduction -- it's an addition?
- Abhijit Akella** The minority interest that we are knocking off in the P&L seems to have gone down from 19 crores last year to 12 crores this year?
- Rajendra Darak** So it's a profit share which has gone down...



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- Abhijit Akella** Correct, so I assume that because the percentage ownership remains the same then the profit also have gone down?
- Rajendra Darak** It's more of timing and I don't know, it can be a different...difficult to give you a correct answer because it's purely a timing issue. But as a business they have done better than last year, that much we can comment to you on.
- Abhijit Akella** And on the income from associates of 8.5 crores, would it be possible to breakout the Advanta and SUB contribution?
- Rajendra Darak** I think Advanta out of this is -- 18 crores. This is a half year number and 18 crores is Advanta income whereas we have 10 crores loss also from SUB, which is our joint venture in Brazil for the same period. These are six month numbers, but I don't have the breakup for this.
- Abhijit Akella** Just on the North America performance, very strong this quarter, 70% growth, how much of that would have been attributable to the currency and how much would have volume growth?
- Rajendra Darak** I think the currency is over 22%.
- Abhijit Akella** 22%, you said?
- Rajendra Darak** Yes.
- Abhijit Akella** Out of 70?
- Rajendra Darak** That's right.
- Abhijit Akella** So despite the delayed season, we've had very strong volume growth out there?
- Anand Vora** This is again -- as we have last time also mentioned lot of the shortfall of the first quarter also came into from a timing into the second quarter.
- Rajendra Darak** That's why if you look at it on a dollar-to-dollar basis we are still behind for the half year, on rupee we are ahead.
- Abhijit Akella** And finally just on the guidance for the full year, so are you still reiterating the same guidance of 12% to 15% growth this year.



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- Rajendra Darak** That's right; we are still maintaining that guidance on an overall basis.
- Abhijit Akella** And just one last question from my end, Phoskill, I suppose it is Monocrotophos...
- Rajendra Darak** That's right.
- Abhijit Akella** There have been some; I guess talk within the Central Insecticides Board about possibly reviewing the safety of that product. So any comment you could give about the outlook for that?
- Sagar Kaushik** That's the normal process, I mean the Central Insecticides Board, they do identify the products for review, and there is a technical committee and they give some guidance and we just follow. And I think so far the - we find that the product is very much quite safe to use etc, and so we are not really concerned on that part, and we maintain, as an industry, good stewardship practices there, so we are okay with that.
- Moderator** Thank you. The next question is from the line of Amar Maurya from India Nivesh Securities. Please go ahead.
- Amar Maurya** First question is, in the other income I believe there is some FOREX gain also, so if you can give me that number.
- Rajendra Darak** July to September, 15 crores.
- Amar Maurya** 15 crores, and what was the last year, same quarter.
- Rajendra Darak** Last year same quarter was about 31 crore.
- Amar Maurya** 31 crore. And secondly sir, can you give the first half free cash flow breakup, if you can?
- Rajendra Darak** I think we didn't share that, I think the way we presented that to you, we've managed to reduce the gross debt by 400 crores, but basically on a net debt basis, we've really been able to maintain at the same level. So whatever -- actually we generated over 700 crores of gross cash, which got used about 280 crores towards working capital and around 280 odd crores we have used it towards investment in plant and our CAPEX.
- Amar Maurya** So you are saying 700 crores you had generated through the operation, right?
- Rajendra Darak** Approximately and obviously we've used out of that nearly 80% in terms of working capital and CAPEX and other things I am sure...
- Amar Maurya** Okay, so 280 is for the working capital and 280 is for the....



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- Rajendra Darak** 280, 290 crores is gone towards CAPEX'S and other investments in terms of registration.
- Amar Maurya** Okay and remaining as for the debt payment, right.
- Rajendra Darak** That's right. Either debt or I am sure some other part of the balance sheet would have also been there.
- Moderator** Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.
- Jinesh Gandhi** I have a couple of questions, one is, can you give breakup of revenue growth in this quarter, you have shared for the first half. Can you share it for the quarter as well?
- Rajendra Darak** You mean analysis of exchange element etc? Yes, it was 26%, out of that 13% is exchange, and of the balance 13%, 12% is volume and 1% is price.
- Jinesh Gandhi** 1% is pricing, okay, good. And sir, second question pertains to our strategy to focus on branded production, reduce contribution from low margin products, which we have stated in the recent meet. Can you give update on that, I am sure this glyphosate reduction and focus is in line with that strategy, so what would be share of branded products now and what's the target which we have in our mind?
- Sagar Kaushik** Well, I think in some of the key geographies, our branded share is almost 70%. And obviously most of the branded product, I wouldn't say all -- most of the branded products will fall into our A and B category. And therefore, I mean that's the overall outlook, and when you launch a new product, so new product obviously should give a margin higher than the average margin. So it has to be in A category or in B category, I am saying more as a principle. So therefore, the overall contribution of the total business in A and B category should increase, and that is the strategy, which we take at the global level. Now, we also had to be aware about some of the crop related requirements, and so sometime we have to take strategic decisions of taking some products, which may not be in A and B category, but they need to go with the other A and B category portfolio because the grower wants it or distribution needs it etc. But I think the major focus is always on the A and B category products.
- Jinesh Gandhi** And what would be A and B category products, I mean since we don't know about that, you can throw some light?
- Sagar Kaushik** Well, I think it is growing, I would say that is more than 50%.
- Jinesh Gandhi** So more than 50% of current revenues come from A and B category products.?
- Sagar Kaushik** Yes.



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- Jinesh Gandhi** Now this we plan to take it to about 70%, like we have in few markets or higher than that?
- Sagar Kaushik** Well, I think it will grow, I can't tell you that whether it would be 70% next year, but I think....
- Jinesh Gandhi** No, I am not talking about next year, but to a longer period.
- Sagar Kaushik** If it is strategic marketing guy, he should think like you are saying.
- Jinesh Gandhi** And, sir, second question pertains to the RM cost side. You have indicated that, there has been some increase on the RM cost because of weaker INR. But in general, even on dollar terms have we seen any further cost inflation in the quarter?
- Rajendra Darak** No we have not seen really any major changes on the raw material prices in dollar terms. There have been some -- obviously there are some ups and downs, but really not of any significance within those numbers.
- Jinesh Gandhi** And, sir, third question pertains to the products going off-patent in next couple of years. You had indicated, you were targeting few of these products. So can you give update on that, what kind of product is going off-patent next year and year after that, and of that, how much are we targeting?
- Sagar Kaushik** Well, I think -- we are in the off-patented space, so definitely we need to capture this information. And what we know is that, in the next five years, let's say starting from 2011, and then you add another five years, so we have, I think about almost 5.5 billion worth of the products which will lose the patents. So from there we are working that which products could be off interest to us, and we have to look from our manufacturing strength, marketing strength, and the crop approach and total portfolio. So that is how our new product development, activities are focused. So it's a very interesting space which in the next five years, we will see open up for the post-patent companies.
- Jinesh Gandhi** And we are targeting almost entire 5.5 billion or any particular segment only?
- Sagar Kaushik** I would say -- let's say, when we put the focus it is never the 100%, but at least, I would say a 60% of it could be there, then otherwise you see some portfolio conflicts etc.
- Jinesh Gandhi** Sure, and this 5.5 billion would be primarily US and Europe revenues or global revenues.
- Sagar Kaushik** They are all global; these products are mostly global in nature.
- Jinesh Gandhi** And one last question on the FOREX gain on other income, can you quantify how much it was in 1Q FY14?



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Rajendra Darak Which period you are looking for?

Jinesh Gandhi 1Q FY14, FOREX gain an in other income?

Rajendra Darak April-June?

Jinesh Gandhi Right.

Rajendra Darak 7 crores.

Jinesh Gandhi 7 crores.

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

Girish Achhipalia I had a couple of them. Firstly on revenue guidance, so this 12% to 15% guidance that you are giving out, I believe is excluding the FOREX impact?

Anand Vora That's right, Girish.

Girish Achhipalia So when we are looking at numbers currently, the first half growth has been excluding the FOREX impact of about 10%?

Rajendra Darak That's right.

Girish Achhipalia So in a way we are expecting an acceleration of growth in the second half to meet that 12% to 15% number?

Rajendra Darak That's right.

Girish Achhipalia The second thing is on pricing variance. The pricing variance, if I'm not mistaken, for the last two years has been anywhere between 3% to 4% for the full year. There has been a little bit of a dip here, while the margins have continuously expanded even in the first half at the gross level. So just wanted to understand which regions are we actually facing pricing pressure and is it likely to reverse in the second half?

Rajendra Darak It's not the pressure, you need to understand when in India when you want to increase price this year you are actually—it's like you are on a treadmill, even though you are increasing prices by 10%-12% you are really compensating only purely the FX impact. And it's not -- and if you need to increase beyond that you also need to take the ability of the market absorb or -- and not kill your market presence in the process. So we think that the intention is -- also it's a mix of the -- to some extent it's also mix of the portfolio in the market when you are looking at average of 1% this year, depends on market-to-market and what kind of products we were able to sell between which market and things like that. So it's a function of multiple



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things which have impacted that 1%. What you need to understand is our ability, being a generic company and being where the prices have remained more or less constant in the raw material side in dollar terms, that we are able to still increase the price by 1% and that just tells you that dynamically that we are committed to keep on at least making sure we are able to increase the price or at least pass on the cost or improve further beyond that.

Girish Achhipalia So when we are giving out this guidance on the revenue sir, we are objectively looking at probably 80% or 90% of that number being met through volumes?

Rajendra Darak Yes, obviously I think our intention always is to meet as much as that, 100% is really volume, we don't try and say always we will try and improve the prices. End of the day, that's the way we always plan internally.

Girish Achhipalia And in the first quarter, you've guided for low double-digit kind of growth for US, does that guidance hold true I mean on a constant currency basis?

Rajendra Darak That's right, which is what we said that that this year or year as a whole we will be in more like a single-digit number for the growth than what we were originally anticipating.

Girish Achhipalia And sir on Brazil, just wanted some sense, you mentioned that there were some timing issues, but if you look at the first half versus the first half of last year, would you be confident to say that the margins at the operating level would have expanded and if you can quantify that because we had given out some kind of roadmap in terms of meeting the group level margins and also a little bit of comment on the working capital if that -- if you can provide in the first half?

Rajendra Darak I think Mr. Sagar mentioned that this year we were able to get product much ahead on-time which is what was -- last year we were much behind on our timing in terms of delivering products to Brazil. And just to give you the good news, I think we have been able to improve at least to 300 to 400 basis points on our margins in Brazil on a like-to-like comparative period to this year. Working capital, the cycles are the same, so obviously as the revenues are increasing the working capital in absolute number has increased, but in number of days, I think we are still doing much better than last year.

Girish Achhipalia Would you guide down on the net working capital days, I think you have mentioned 90 to 100 days for the year end, is that changed?

Rajendra Darak Yes we think that we should be in that range end of the year.

.Moderator The next question is from the line of Pradeep Poddar from ICICI Prudential. Please go ahead.



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- Pradeep Poddar** If you can just take me through how was the cash generated during the first half has been employed towards the working capital, CapEx and debt?
- Rajendra Darak** I think basically as we said about 300 odd crores we have used it towards working capital and around 290 odd crores we have used it towards CAPEX primarily.
- Pradeep Poddar** And the debt reduction is around 300?
- Rajendra Darak** The gross debt went down 400 crores, the net debt is more or less flat.
- Pradeep Poddar** So I mean, just to understand have we paid down our debt or...
- Rajendra Darak** We had used our cash to pay down the debt from a purely from -- if you are doing from math's perspective.
- Pradeep Poddar** And our guidance for CAPEX still stand at around 400 to 500 crores?
- Rajendra Darak** That's right.
- Pradeep Poddar** So then incrementally around 200 odd or 300 crores of...200 crores of cash is I mean CAPEX amount is what we can do now?
- Rajendra Darak** We will still do that by the end of the year, that's right.
- Moderator** The next question is from the line of Ajay Nandanwar from East Bridge Capital.
- Ajay Nandanwar** Could you please give some sense of your growth rates in different countries in Latin America, Brazil and other geographies, and what would be your broad mix between the key countries?
- Rajendra Darak** I think we don't give that. We don't disclose the numbers by country, as a region obviously the growth rate in Brazil has been on a higher side compared to the growth rates in other parts of Latin America. For us Latin America comprises Argentina, Brazil, then Mexico and the Andean region.
- Ajay Nandanwar** And sir, secondly, I wanted to ask about your margin -- the gross margins. Gross margins has been relatively stable despite your price rise. You mentioned that the raw material cost has been flattish in dollar terms and you've taken a percent price hike. But your gross margins aren't showing that, if you could comment on that a bit...
- Rajendra Darak** We said the margin is a function of also the country, product mix because -- just to give you the context of it -- when you are looking at price increase, we may have increased price in a market where the margins



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maybe lower. Whereas we may have, like for example, this year our turnover from US market could be lower compared to last year. So if US market is a higher margin business, and if that got substituted from Latin America which maybe slightly lower margin business. So you are getting our higher turnover, but from a lower margin business and that is getting also to some extent compensated from wherever the price increase is coming. So this -- when you are seeing the margin it's a function of price, cost of manufacture and a function of the product mix.

Ajay Nandanwar

And while we will do this gradually over, say for the next two to three years; how much opportunity do we see for price increases because of differential in pricing between our products and some of the other generic company products?

Rajendra Darak

Pricing you means to say the price increases.

Ajay Nandanwar

How much opportunity we have?

Rajendra Darak

Again, I don't think I would -- it's fair to say that there is -- I think you take an opportunity as you see the market plays, it's not really a -- I don't think, we can tell you that we will be able to increase pricing on a consistent basis or that would be our endeavor that we should at least try and improve prices or at least pass on the cost increase if there are, or at least, finally make a mechanism to improve margins, that maybe because of better cost efficiency or maybe because of price increase.

Moderator

Thank you. Ladies and gentlemen due to time constrains only one last question can be taken. The last question will be from the line of Jasdeep Walia from Kotak Institutional Equities. Please go ahead.

Jasdeep Walia

I'll take you back to Brazil. Sir, basically your growth in first half has been pretty good. So your -- its upward -- sales have grown by upwards of around 20 odd percent. Still your first half profitability, which we can make out from the associate profit number that you report, and your minority interest number, and I think down YoY. Sir, as I -- as per my knowledge, they were last year you had over provided for doubtful debtors in Brazil. So purely on account of that there should have been significant growth this year on a YoY basis?

Rajendra Darak

But most of the provisions which we did in Brazil was towards more on the second half than in the first half -- not a big number in the first half.

Jasdeep Walia

In your comment you referred to your margins increasing in Brazil by around 300 to 400 basis points....

Rajendra Darak

That's right.

Jasdeep Walia

So why don't we see commensurate increase in profits?



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- Rajendra Darak** In Brazil? But I think the function is also to some extent what you need -- what you are seeing profit is at the -- purely at the PAT level. That is also, what you need to understand is, PAT means it has a tax implication, it has an interest implication. So Brazil has been borrowing much more compared to last year in Brazilian books. So that is one impact. And last year when they made less profit, if they are making losses, they also reverse their losses by way of deferred tax which we don't recognize in the group level. Whereas when they are making profit they provide for tax which we take into account 100%. So there is a function of some extent of accounting issue also with that.
- Moderator** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor back to Mr. Nitin Agarwal, over to you.
- Nitin Agarwal** Sir, you want to make any comments -- last closing comments.
- Rajendra Darak** I think we would like to thank all the participants and everybody for joining this call, and thank you very much for your questions.
- Nitin Agarwal** Thanks everyone for participating, and thanks for UPL management team.
- Moderator** On behalf of IDFC Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.