



“UPL Limited Q3 FY19 Results Conference Call”

**February 04, 2019**



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**Moderator:** Good day, ladies and gentlemen, and a very warm welcome to the Q3 FY'19 Earnings Conference Call of UPL Limited hosted by IDFC Securities Limited. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nitin Agarwal from IDFC Securities Limited. Thank you and over to you, Nitin.

**Nitin Agarwal:** Thanks, Ali. Good afternoon, everyone, and a very warm welcome to UPL Limited's Q3 FY19 Post Results Earnings Call hosted by IDFC Securities. On the call we have representing UPL management Mr. Rajendra Darak -- Group CFO; Mr. Ajit Premnath – COO, Global Business; Mr. Anand Vora -- Global CFO and Mr. Ashish Narkar -- Senior GM, Finance.

I hand over the UPL team to make some initial comments and then we will throw open the floor for question-and-answer. Thank you, sir. Please go ahead.

**Anand Vora:** Thank you, Nitin. Good afternoon to everybody who has joined us from Asia and good day to others who are on the call.

Let me first start off the call with the announcement we made on the 1st of February India time / 31st January US time. We have successfully closed the transaction of acquisition of Arysta and effective 31st January, the company is now part of UPL.

So with that I will move on to the Financial Results for Q3. Gross revenue for the quarter ending December 2018 are at Rs.4,921 crores as compared to Rs.4,194 crores in the same period in previous year. The overall increase in sales was 18%. The sales volume grew by 6%. The price increase was 7% leading to a constant currency growth of 13%. The exchange impact was favorable by 5%. The gross margins are at 42.4%. In absolute value terms the gross margins grew by 16%. EBITDA margins are at 20.6% of sales, showed an improvement of 88 basis points over the same period last year. Profit before tax of Rs.591 crores is an increase of 6% over Rs.555 crores last year. Net profit after tax after exceptional items is 9.4% of sales, previous year it was Rs.574 crores, this year it is Rs.461 crores.

We would like to highlight that the growth in profit after tax in Q3 financial year 2019 would have been 7% instead of (-1%) if certain one-time adjustments in tax provision in Q3 financial year 2018 were not considered. These adjustments pertain to one-off adjustments of Rs.98 crores of write-back of excess provision of tax and minimum alternate tax credit entitlement relating to earlier periods. This had been reversed because we got our tax refund from the income tax department after completion of the assessment. Rs.55 crores of reduction in deferred tax asset due to tax reforms in US. I would just like to remind listeners that because of the reduction in tax rate there were adjustments which required to be made on the deferred tax asset and Rs.55 crores pertains to those adjustments. The actual tax provision after taking into consideration the above adjustments in Q3 financial year 2018 was Rs.29 crores Vs Rs.28 crores this quarter.



The revenue breakdown in terms of geography is; India de-grew by 21% from Rs.614 crores to Rs.486 crores. My colleague, Ajit Premnath, will elaborate when he comments on performance by geography.

Latin America had a growth of 26% from Rs.1,806 crores to Rs.2,284 crores. Europe grew by 37% from Rs.374 crores to Rs.511 crores. Rest of the world had grown by 13% from Rs.687 crores to Rs.774 crores. North America revenues grew by 21% from Rs.713 crores to Rs.866 crores.

Now I will take you through the YTD numbers for the first nine months ended 31st December 2018: Gross revenue for nine months ended 31st December 2018 stood at Rs.13,312 crores compared to Rs.11,687 crores in the same period of financial year 2018, a growth of 14%. The overall increase in sales was 14%. Within this growth, volume growth was 7% and price increase was 4% leading to a constant currency growth of 11%. There was a favorable exchange impact of 3%. The gross margins are at 43%, 21 basis points improvement over previous year same period. In absolute value terms the gross margins grew by 14%. EBITDA at 20.3% showed an improvement of 64 basis points over the same period last year. Profit before tax of Rs.1,618 crores shows an increase of 7% over Rs.1,516 crores last year. Net profit after tax after exceptional items is Rs.1,241 crores this year as compared to Rs.1,286 crores in the same period previous year, a decrease of 3%. For the reasons mentioned earlier, the actual tax provision for nine months financial year 2018 without those adjustments was Rs.152 crores Vs Rs.196 crores during the current year of nine months, and after making those tax adjustments, the growth in profit after tax would have been 4% instead of 1%.

The regional breakdown of revenues for the first nine months is as follows: India at Rs.2,811 crores represents 21% of the total revenue, 3% growth over that of the previous year. Latin America revenues at Rs.4,890 crores comprise of 37% of our total revenue, 25% growth over that of the previous year. Revenues in Europe at Rs.1,526 crores were 11% of the total revenues and represent growth of 15% over that of the previous year. Rest of the world at Rs.2,078 crores is 16% of our revenues, a growth of 8%. And North America at Rs.2,007 crores represents 15% of our total revenues showing a growth of 12% over that of the same period in the preceding year.

Moving on to working capital, the working capital performance for December 2018 versus December 2017 in terms of number of days of sales is as follows: Net working capital increased by 4-days to 117-days, inventory at 131-days have increased by 14-days, receivables at 107-days have reduced by 8-days. Payables at 121-days have increased by 2-days.

Debt and cash levels at the end of December 2018 were as follows: Gross debt was at Rs.8,440 crores, as of March 2018 they were at Rs.6,638 crores, and as of September 2018 the debt levels were very similar to that what is there as of 31st December. Cash levels were Rs.1,336 crores; as of March 2018 the cash levels were at Rs.2,893 crores. Hence the net debt is at Rs.7,104 crores, compared to that as of March of Rs.3,745 crores.



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We would also like to provide an update on the acquisition of Arysta LifeScience announced by us in July 2018. This is more with regard to the integration process. As we have shared during the last quarter also, we would like to give an update on the status of the integration process. The global, regional and country leadership have been finalized and announced to ensure business continuity post-closing. Full organization structure would be announced by end of March 2019 barring a few functional announcements. Ensured proactive communication through multiple all-employee townhall and customer engagement activities. We have line of site for US\$ 350 million of top line synergy and US\$ 200 million to US\$ 250 million of cost synergy. ERP integration is on fast track to get 75% of combined business on SAP by July 2019. Two pilot countries to go live by mid-February 2019.

In terms of financial performance, as per management accounts of Arysta LifeScience, on a consolidated basis, the net sales for full financial year 2018 increased by 7% on constant currency basis (5% after exchange impact), EBITDA came to 22.1%. In absolute terms, this was an increase of 7% over that of the previous year. Just to repeat these are financial numbers from management accounts of Arysta LifeScience.

I will now request Mr. Ajit Premnath to provide Business Updates by Region for Quarter-ended December 2018. Over to you Ajit.

**Ajit Premnath:**

Thanks, Anand. Good afternoon, ladies and gentlemen. I will now take you through the UPL business and market update by region. Let us start with India: I think in India Q3 was quite disappointing after poor rains in kharif season, the erratic rainfall situation continued, and it was really quite bad in Central and South India; the kharif crops continue to be in very bad shape, very poor yield, which has also affected the ability of the farmers to go in for rabi crops. Cash flows in the market are very poor and the ability of the farmers to invest in the subsequent crop in rabi was really impacted. We took a very conservative approach and ensured that we did not leave inventories in the market after the kharif season and this has really impacted our Q3 results. The positive thought to this is that we will not start with inventories in the market when we start new season and that should give us a head start in April and May in the next kharif season. Having said that, all was not bad.

Our new launch of Sweep Power which we launched in Q1, we crossed 1 million liters in the very first year. This non-selective herbicide is a good alternative to Glyphosate and Paraquat and we expect very robust growth of this product in coming years. Our wheat campaign in the north has also been very successful, our leading brand Shagun which is a herbicide for wheat, had a growth of more than 60% in value terms.

We also launched a new fungicide, bit late in the season, but we did launch a new fungicide on grapes. This is a completely new molecule and this in the coming years should give us good niche let us say market share in certain segments.



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Our Biostimulants business which we introduced in the market two years back continues to grow very well. Despite the poor seasonal condition these products were quite well in demand especially as the crop was under stress.

With this let us move on to Latam, our largest region. Despite parts of Brazil and South Cone impacted by poor rains and this would affect soybean yields in the season, we had a very good year. We have grown faster than the market and expect to finish the year maintaining the lead.

Our Insecticide Sperto consolidated its position as a leader for control of bugs and caterpillars in soybean crop.

We also launched STRIM, Herbicide in Argentina and South Cone. Our family of fungicide for Soybean rust resistance management continues to grow. We launched a new three-way mixture this year to add to the portfolio of products based on Mancozeb. Overall, we had growth in all the key markets in Latin America besides Brazil.

As far as Europe is concerned, overall for the industry, year has been very challenging due to very dry summers, fungicides sales especially on wheat were dramatically impacted and the market in Europe is expected to have de-grown by 10% in 2018 over the previous year. Against this backdrop, UPL has done extremely well in Europe. We had a very strong quarter, which was driven by a growth in Mancozeb and Sugar Beet Herbicides. Favorable weather also helped us to grow our business of sulphur and copper in Southern Europe. Overall, our pre-season campaign for Sugar Beet has been very successful and we are looking forward to another great year in the coming spring.

In North America, we launched Lifeline in Canada, our leading Herbicide, Canada is going to be a significant market, after US of course.

For the first time, we also implemented a joint promotion program for our Herbicide portfolio with a leading cotton seed, company, Americot, and this has really given a good boost for our Cotton portfolio sales and this of course also includes Insecticides. So this joint promotion with Americot which has a leading market share on cotton seeds is giving us access to growers, and this we expect to give us good dividends in the coming years.

Lifeline continues to grow despite increase in Dicamba seed acreage. This gives us a very good indication that despite the new technology coming in, demand for products like Lifeline would continue to be strong to manage resistant seeds.

In rest of the world region, we had a successful Ulala campaign in Pakistan. We doubled our sales there. We introduced two new Herbicides in China. Africa business continues to grow as it has in the past two quarters with new registrations coming in and creation of market access in new countries. The biggest dampener in rest of the world has been Australia where the situation



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has not improved, it has continued to be under drought condition after the failure of winter crops, even prospects of summer crops do not look good.

So, this is a quick overview of the global business situation. With this I hand over the mic back to Anand.

**Anand Vora:** Thanks, Ajit. With this our commentary on the Q3 results is we have pretty much done well. We will be happy to take questions.

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

**Aditya Jhawar:** If you can quantify the loss of sales in India because of restriction or ban on certain molecule and on annualized basis what could be the contribution of these molecules?

**Ajit Premnath:** In certain states in India there has been pressure or restriction on sales of Organophosphates and we have certain products in that portfolio which are significant as far as India business is concerned, and due to the restriction we did suffer sales. These are sort of not very new products and the margins are I would say average, but yes, it has had impact on our contribution as well as top line. So these states, for example Maharashtra, Punjab, Haryana, some of the states have restricted a few products.

**Aditya Jhawar:** Ajit, if you can quantify on annualized basis, what could be a rough contribution of these products?

**Anand Vora:** Aditya, roughly in the range of Rs.30-40 crores of turnover on an annualized basis.

**Aditya Jhawar:** My second question is on North America. The growth has been pretty strong especially considering a little bit impact of the trade war. So, if you can help us understand the quality of growth in terms of what could be the organic growth? If there is any distribution channel added, for example, the tie-up that we have done, that could have boosted the B2B sales, if we can understand the quality of growth on organic basis?

**Ajit Premnath:** Everything is organic there and everything is branded there. So, there is no really B2B that we are talking about. The tie-up that we have done with the seed company is sort of a joint promotion, where you offer incentives to the growers when they buy this company's seeds and along with that the brands of UPL. So it is all promotion of UPL brands. So, in that sense, it actually goes directly to the growers. So in that sense it brings us really closer to the actual users of the product.

**Aditya Jhawar:** In that sense, the growth is pretty encouraging. So there was no material addition of distribution channel in Midwest or something?

**Management:** No.



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- Aditya Jhawar:** Anand, a couple of questions. In fourth quarter FY19, is it fair to understand that we will be consolidating two months of Arysta sale?
- Anand Vora:** Absolutely.
- Aditya Jhawar:** Guidance for tax rate for '19 and '20 and CAPEX for '19 and '20?
- Anand Vora:** You join us at the Capital Markets Day. That is when we announce our guidance.
- Aditya Jhawar:** What are we looking for tax rate for '19 and '20?
- Anand Vora:** So '18-19 we had guided to you; we always have 15-18% tax rate. '19-20 we will come back to you.
- Moderator:** Thank you. The next question is from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.
- Girish Achhipalia:** Just a couple of things: On a quarterly result side, this quarter December the Arysta management also did not report, the discontinued operations. So it could be helpful if you just highlight the key revenue, EBITDA and PAT numbers for the quarter for Arysta?
- Anand Vora:** We have the annual numbers which I just shared when I gave the numbers. They are pretty much on track, roughly in the range of US\$ 2 billion for the calendar year and profit margin in the range of about 21%. They announced an EBITDA of roughly around US\$ 452 million.
- Girish Achhipalia:** Just in terms of cash flow reconciliation for UPL, we have the numbers on debt. So if you could just highlight the CAPEX for the nine months for the core business and any other items apart from working capital that would kind of explain?
- Anand Vora:** So our CAPEX overall for nine months is about Rs.1,246 crores and some of the other key items for the nine months would be of course the dividend of Rs.423 crores. We did mention to you all about the direct and indirect taxes particularly the GST and advance tax where we have roughly about Rs.410 crores. Working capital is about Rs.2,093 crores. These are some of the key large numbers.
- Girish Achhipalia:** Sir, is there any further investments that we have done this year in the Brazilian subsidiary?
- Anand Vora:** We would not be making any further investments into that.
- Girish Achhipalia:** Receipt of those investments that we had done last year, I mean...?
- Anand Vora:** I think the season will end in March. So we should start seeing the cash flows coming in after March.



- Girish Achhipalia:** Is there debt-to-EBITDA guidance for the core business?
- Anand Vora:** Net debt-to-EBITDA will spike up to about 3.4-3.5x and by March 2020, that is over the next 12-months, we should be bringing it down to around 2.4-2.7x, that is the range which we had indicated, and by end of 18-24-months we should be below the threshold of investments grade which varies from 2-2.5x net debt-to-EBITDA.
- Moderator:** Thank you. The next question is from the line of Vishnu Kumar from Spark Fund. Please go ahead.
- Vishnu Kumar:** In terms of the integration synergies that you just spoken about, this US\$ 350 million in revenue which year are we targeting this number?
- Anand Vora:** This will be over a period of three years we expect about 30% in year-one, about 70% by year-two and 100% by year-three.
- Vishnu Kumar:** This US\$ 200-250 million again if you could...?
- Anand Vora:** Over two years; we expect about US\$ 100-110 million in first year and the rest second year onwards.
- Vishnu Kumar:** In the Brazilian portfolio, if you could just give us how much this new product Sperto would be, if you could just broadly give the top two, three products as a percentage of the LATAM sales?
- Anand Vora:** We generally do not give product wise revenue number detail but I can tell you that product is being very well accepted and we are seeing some good sales traction in Latin America for this product.
- Moderator:** Thank you. The next question is from the line of Saurabh Jain from HSBC. Please go ahead.
- Saurabh Jain:** Back to India, you mentioned Rs.30-40 crores is the annual basis the contribution of these molecules which you have restricted. But correct me if I am wrong in this quarter itself we have seen Rs.130 crores kind of decline in India. So, not able to reconcile that?
- Ajit Premnath:** There are various factors. This is the overall impact of the season actually mainly because from Central to South India including Maharashtra, Gujarat and then Andhra, Karnataka, it has been a very poor kharif season. What has also happened is that, usually we do not, but this year we took back some inventories from the market. So that is reflecting in this Rs.100 crores or whatever negative.
- Saurabh Jain:** What would have been the industry growth for 3Q?
- Ajit Premnath:** Industry, we believe that there is a lot of inventory in the marketplace. So that will get consumed only in the next season. We believe that since we have sort of cleaned up the market, we should



have better situation when we start the next season. We are taking returns right now instead of let us say taking it next year.

**Saurabh Jain:** But do you expect this to bounce back to the usual growing trend because India has been one of the fastest growing?

**Ajit Premnath:** We are always hopeful that the next season would be normal. Of course, linked to all rainfall, but we are absolutely expecting it to be normal.

**Saurabh Jain:** So Europe and US again both surprised with very high growth; 35%, 20%. Now fourth quarter being more Europe and US heavy, and already we are past January. So would you believe that this kind of growth is only one-off and it would more taper down or we will still be able to do double-digit growth in these geographies?

**Ajit Premnath:** In both Europe and US, 3<sup>rd</sup> quarter is when we start pre-placing the material in anticipation of the season. So a good third quarter reflects that there were very low inventories in the market from the previous season. The distributors have picked up material and everybody is expecting a normal good season starting in March, April. So given a normal situation, we should have a good fourth quarter also and indications today are that everything it should be okay and our biggest segment is sugar-beet, and that looks quite stable, it should be normal.

**Saurabh Jain:** Probably one of the competitors or Bayer might have launched its flagship product Fox Xpro. How has been the response on that product – any impact for us on Mancozeb-based products because of that?

**Ajit Premnath:** Just to tell you that despite launching Fox Xpro the sales of Bayer's Fox has also grown. So that tells you that it did not cannibalize. So you have in soybean three to four sprays. So they have positioned the product in such a way that it does not cannibalize Fox, their own product and Fox is growing, it is good news for Mancozeb because Mancozeb goes with Fox. As I mentioned, our Mancozeb family of products have grown.

**Saurabh Jain:** You do not foresee any threat from that product as and when it achieves scale?

**Ajit Premnath:** No, its positioning is very different towards the end of the spray and that should compete with other more expensive products.

**Moderator:** Thank you. The next question is from the line of Amar Mourya from Emkay Global. Please go ahead.

**Amar Mourya:** Sir, if you can allude little bit more on the US\$ 250 million of cost synergies, how much of this is largely going to come from the backward integration which we have at our end?

**Anand Vora:** About 50% of the synergies would come out of backward integration.



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- Moderator:** Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.
- Dheeresh Pathak:** On Arysta for calendar 2018, if you can also share the cash flow from operations and cash flow after CAPEX?
- Anand Vora:** We just closed the transaction as you know on 1<sup>st</sup> Feb and some of these are sensitive information and from an anti-trust point of view we were still competitors until 1<sup>st</sup> Feb and then we had the week-end, so information is flowing in as we speak, so, at this stage, I do not have the information with me.
- Dheeresh Pathak:** Second question on Brazil. If you can share for nine months what is your constant currency growth in Brazil?
- Anand Vora:** We generally do not give country-specific sales, so we would not be in a position to give you that. And then when we talk about Latin America, I think overall currencies have been depressed over there. So there has been I would say what we have indicated roughly about 5% currency impact for for the quarter. I think you can say roughly it should be in that maybe (+/-1%) as far as LATAM is concerned from the currency point of view.
- Dheeresh Pathak:** If you can share Mancozeb what percentage of Brazil sales?
- Anand Vora:** We do not specifically give out the molecule wise details.
- Moderator:** Thank you. The next question is from the line of Tarun Lakhotia from Kotak Securities. Please go ahead.
- Tarun Lakhotia:** Actually I wanted to follow up on that. I understand that you do not have much financial details of Arysta in terms of balance sheet and cash flow that you can share. When can we expect more detailed financial disclosure -- from March quarter results itself or?
- Anand Vora:** From March quarter.
- Tarun Lakhotia:** Obviously we are integrated, but I am just trying to understand the balance sheet breakup or you would have consolidated balance sheet of UPL itself?
- Rajendra Darak:** It will be a consolidated UPL but for the first time we will give you the balance sheet for the acquisition which will be separate.
- Tarun Lakhotia:** The other thing which I wanted to check is that Rs.75 crores exceptional item which you have included some transactional cost related to Arysta and some litigation cost. How much is the amount related to Arysta and is there anything else which maybe booked in the current quarter or next quarter?



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**Anand Vora:** I think it is largely related to the Arysta acquisition. There could be some Rs.10, 15 crores of other things but most of it is towards Arysta transaction.

**Tarun Lakhotia:** Anything left from that to be booked in this quarter or it is almost done?

**Anand Vora:** It is a big transaction; US\$ 4.2 billion transaction. So by next quarter we will have most of the transaction cost coming.

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

**Girish Achhipalia:** Just on the revenue synergies, could you quantify or just qualitatively in terms of which countries could be bigger proportion and which particular segments in terms of insecticides, herbicides, fungicides could these be?

**Ajit Premnath:** This US\$ 350 million has been based on early preliminary work we did when we, of course, did not have all the information and now we are actually working with all the details on products. Bbut we see a lot of synergies without even getting into details because for example in geographies like Africa, Eastern Europe, Russia and all, Arysta distribution network can take the products from UPL and similarly for some other geographies vice versa. So these are very simple synergies that we can see. We can also see that on certain crops where we have a strong position with our portfolio and Arysta has complementary products which can add to that portfolio. That kind of synergy and again vice versa is also very clearly visible in Latin America, North America, countries in Asia. In India, for example, Arysta had a very small presence but a very large portfolio and we have a very strong presence here. So, there are very clear synergies that we can see by geography, by portfolio, by presence in the distribution, etc., and now we are working on the details to capture the synergies as quickly as possible.

**Girish Achhipalia:** Any preliminary estimate on CAPEX side that you will have to incur intangibles or tangibles to realize these synergies?

**Rajendra Darak:** Nothing exceptional. We will give you that guidance which is normalized. UPL and Arysta which has been always the same.

**Girish Achhipalia:** Just on Mancozeb, there has been a lot of confusion around how the sourcing for Brazil, etc., has worked. So if you can just clarify that position around how the supply chain from Brazil works as i.e., where do you import AI or the semi-finished products? And then in terms of your constant currency growth for the nine months if you can just share, not the quantum but just the growth number as to how this portfolio has performed?

**Rajendra Darak:** I think Mancozeb, UPL has three sourcing points which is India, Netherlands and Colombia. We source from all the three locations products to Brazil. It is a function of requirement availability of our capacities and different logistics issues which the team takes into account. So you will see



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sourcing happens from all the three locations as far as Mancozeb is concerned for UPL in specific.

**Anand Vora:** Just to add to what Darak said, as you are aware, we have just doubled our capacities in Colombia, so there has been a bit of spike for obvious reasons because if we export anything from Colombia into Brazil, there is no custom duty charged on when we import into Brazil. So those benefits are there. In terms of specifics on the growth, I think we continue to see good traction on Mancozeb, not only straights, but also in terms of mixture, we have also launched the triple mix. Maybe Ajit, do you want to allude?

**Ajit Premnath:** Yes, I mentioned that. So we have a family of products now. We have triple mix that we launched this year. So we have several offerings which can be used at various stages of the crop and depending on the situation.

**Moderator:** Thank you. The next question is from the line of Lakshmi Narayan from SBICAP Securities. Please go ahead.

**Lakshmi Narayan:** I have two questions: One is if you could talk about overall pricing in the market, Q2 we saw MNC competitors increasing price and you have also taken a price increase. Q3, was there a price increase and in general how do you see the pricing environment?

**Ajit Premnath:** We have been taking a price increase right from Q1. In Q3 we took a price increase of 7% like-to-like basis and if you see Q1 was 2% increase, then we had 4%, now it is 7%. So as we go forward, our price increase really got implemented and accepted. There is always a lag effect when we try to increase prices but we have been successful in implementing that.

**Lakshmi Narayan:** Recently, there has been some noise around China, some capacities for AI come back. Are you seeing that impact sense of prices cooling off or pricing ...?

**Ajit Premnath:** I think what we are seeing is now that the spiking of prices has sort of slowed down, we have stable prices, they are not going down.

**Lakshmi Narayan:** Any update on your "Project Independence" where you wanted to eliminate China dependency, if you could give a sense of where you would be a year or two years down the line in terms of your own...?

**Anand Vora:** We have Mr. Raj Tiwari who is our Global Supply Chain Head and he will answer this question.

**Raj Tiwari:** Project Independence has been a regular phenomenon. We have been looking at the critical intermediates and raw material security. That has been going on well. Some of the key intermediates we have been able to put up the capacities internally. Therefore, we see less of interruptions in the current quarter or in the last quarter. Going forward, things would be even more better.



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- Lakshmi Narayan:** Post Arysta, I know you said you would give the CAPEX guidance in the Annual Capital Markets Day. But would that number be materially different or you will just wait to see how things go and then sort of look to increase on the manufacturing side to support Arysta?
- Rajendra Darak:** It would not be materially different, it will be similar to what we have been doing or whatever Arysta has been doing., so it will be in similar range.
- Moderator:** Thank you. The next question is from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.
- Chirag Dagli:** How is our Adjacent portfolio doing for India? If you can share some numbers of what percentage of our sales comes from Adjacent?
- Ajit Premnath:** Our Adjacent Technologies which is Biostimulants, seed treatment and all those portfolios are doing pretty well. We have significant growth. We added a few products to our portfolio. Growth will be 50-70%, depending on the product that we are talking about. We also introduced UPDT, our Drought Management Solution and that has been very successfully received. It is a new concept. Needs a lot of effort on the ground, working with the farmers to show the usefulness of the product and wherever we have done this work, it has been very satisfactory, farmers are very happy. We also supply to the Government of Andhra Pradesh which they distributed the products. So, our Adjacent Technologies are doing extremely well.
- Chirag Dagli:** How big is this in the overall India business, is there a number you want to call out?
- Ajit Premnath:** It is still very small compared to the overall business because our overall business is pretty large. So it will be in single-digit in terms of share of the total business and it is all concept selling, we are not replacing one brand with another, it is really something new that we are trying to promote. So, it needs a lot of effort and time.
- Chirag Dagli:** On the Arysta piece, there was Biologicals business as well. How has it done in CY18?
- Anand Vora:** I think during the Capital Markets Day we will give you the segment wise breakup. But from what we hear is it is doing very well and they continue to grow because this segment as you know is growing at about 13-14%, market itself is growing at that rate.
- Chirag Dagli:** In terms of price increases, are there any specific markets where price increases are becoming difficult or more difficult or generally you are seeing an increase in farmers' acceptability of higher prices?
- Ajit Premnath:** Price increase is always difficult. It is not easy to increase prices. It takes a lot of effort, but for us if you see the numbers, we have increased prices globally.
- Moderator:** Thank you. The next question is from the line of Amit Murarka from Deutsche Bank. Please go ahead.



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- Amit Murarka:** Will you be able to share the current debt after the closure of the deal?
- Anand Vora:** Roughly we added US\$ 3 billion to the existing debt. Maybe another two bonds which are outstanding.
- Amit Murarka:** The 22% stake sale has also happened at that US\$ 1.2 billion kind of...?
- Anand Vora:** That is right, happened simultaneously.
- Amit Murarka:** Is there any potential for any hive-off or anything after the deal or you think that the portfolio is pretty much stable, in terms of you see any business that does not need to be there with you or any kind of further sell-off that can be...?
- rajendra Darak:** Nothing on radar presently. Once we do a more detailed analysis in the next few months, maybe.
- Amit Murarka:** Lastly on Sinagro. So, I see that the associates loss this time around of Rs.40 million versus a gain of 170 same quarter last year. My understanding is that Sinagro kind of has been improving the business performance and this year has been a better year than last as well. So, is there any reason why there was a...?
- Anand Vora:** Slight delay in the season. So that is why we did not see the harvesting and other impact coming through.
- Anand Vora:** Yes, we are quite confident that we should be able to do better numbers, that is what the team is saying, so we are quite hopeful.
- Moderator:** Thank you. The next question is from the line of Ranjit Cirumalla from B&K Securities. Please go ahead.
- Ranjit Cirumalla:** Just coming back on the 7% price-led growth, just a clarification over here, do we also take the product mix into this pricing or it is just the share pricing that we report?
- Rajendra Darak:** This is only pure price.
- Ranjit Cirumalla:** Any changes with regards to the product mix?
- Rajendra Darak:** That will be either getting captured in the volume because it is a totally new volume.
- Ranjit Cirumalla:** Second is on the India-specific business. Is there any rationalization or change with regards to the sales force particularly to India or is just the normal activity which we carry out?
- Ajit Premnath:** It is a normal activity, there is no significant change in the sales force or structure of the numbers.
- Moderator:** Thank you. The next question is from the line of Alok Dalal from CLSA. Please go ahead.

**Alok Dalal:** Anand, possible to have a rough breakup of the key items of the balance sheet as on 31<sup>st</sup> March '19, say your key items both on asset and liability side if possible, for example, the Arysta acquisition that will get added, then on the assets side, how does it reflect in tangible and intangible asset if possible?

**Anand Vora:** As we speak, we are doing price purchase allocation and other things. So valuation and other things are being done. Although I must admit I am not too sure we may have some very broad numbers when we announce at the time of Capital Markets Day because as you know this exercise takes certain amount of time, but we should be having some indication of the numbers when we share that numbers at the Capital Markets Day.

**Alok Dalal:** But as of today, you will not be able to give a rough color or some broad idea?

**Anand Vora:** It is a US\$ 4.2 million debt-free cash-free with some little bit of cash which is locked in. otherwise it is a debt-free cash-free acquisition. We just closed it. Now we need to sit down. We have 90-days period to see what is the closing balance sheet and other things. So, once we have that, we should be in a position to give you some color.

**Moderator:** Thank you. The next question is from the line of Vishnu Kumar from Spark Fund. Please go ahead.

**Vishnu Kumar:** On the US business, we understand that this year there are more seed companies launching Glufosinate resistant seeds. In that case, how does it directly help Lifeline our Glufosinate business here – is it that the farmers will directly come to the market and buy from the distributors or we are entering into any tie-up with directly the Monsanto's of the world?

**Ajit Premnath:** This year they are launching this Enlist technology which is Glufosinate resistant. It is too late for the season. So it will be in my view sort of test launch and next year would be the big one, but the key here is that the farmers will be able to use Glufosinate on those seeds and of course he will go to the distributor and buy the Glufosinate. We will now engage with the seed producers and seed distributors to try to tie-up. But otherwise, the big advantage is that the farmers will be able to use Glufosinate on the seeds over the top.

**Vishnu Kumar:** Is there a possibility directly the innovators are launching the seeds, let us say, buy it from China and sell it as a package of the mixture directly to the farmer or...?

**Ajit Premnath:** No, we do not expect that. These innovators probably have tie-up with the companies they can sort of rely on. But essentially, they allow the farmers to make a choice in buying the products they want to spray.

**Vishnu Kumar:** Just to understand this, when the farmer uses the seeds, they will buy either the Dicamba and the Glyphosate mix from innovators and they will buy Glufosinate from the distributor and spray it, is it the right understanding?

- Ajit Premnath:** Some distributors may not even have Dicamba. So, it is not necessary that you have to bundle. It is good to bundle for the seed companies because they can extract more value but it is not necessary that every seed company will have all the products in their portfolio to bundle with the seeds. So, either they look for a partner where we come into play, like we are doing today with Americot or it is left to the farmer to buy from wherever he wants.
- Vishnu Kumar:** So next year is when we are expecting big growth to come on this?
- Ajit Premnath:** China approved the seed very recently. So it is too late really to launch the seed product in the market now. They are launching small volumes. That is our understanding. And 2020 should be a first full year of launch.
- Vishnu Kumar:** Just on the integration cost, how much has been already routed through P&L and how much is pending?
- Rajendra Darak:** These are more transaction expenses and presently some integration effort, lot more will come in this quarter and the next year will be the real integration cost which will come.
- Vishnu Kumar:** The transaction cost how much has been routed through P&L and probably how much can we expect in 4Q?
- Rajendra Darak:** What you see in all the exceptional items, in the P&L it has gone but it has gone under the head of exceptional.
- Vishnu Kumar:** Is there a number for 4Q, that is the question sir?
- Rajendra Darak:** No, we do not have because lot of the bills are still coming in.
- Moderator:** Thank you. The last question is from the line of Prashant Biyani from Prabhudas Lilladher. Please go ahead.
- Prashant Biyani:** Sir, when did this organo-phosphorus compound ban kick in, in India?
- Ajit Premnath:** It is not a ban. We still have proper CIB registered products. It is approved label. Certain state governments have taken a position that they would not allow certain products to be sold in their states and we are in discussion.
- Prashant Biyani:** Which brands are getting affected because of this?
- Ajit Premnath:** There are several products – Monocrotophos is one, in some states, Acephate is another one.
- Prashant Biyani:** Can we have this breakup of exceptional items between acquisition cost, litigation and Latam restructuring if possible?





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**Anand Vora:** As I mentioned, largely the transaction cost which is there and there is some integration cost which we have incurred. That is largely the exceptional item. Maybe Rs.10, 15 crores would be other than these two which I just mentioned out of the total of Rs.91 crores.

**Prashant Biyani:** This Latam restructuring expense is likely to continue going forward?

**Anand Vora:** I do not see any major thing coming in.

**Moderator:** Thank you. That was the last question. I now hand the conference over to the management for their closing comments.

**Anand Vora:** Thank you very much, ladies and gentlemen for joining us on this call today. And in case you have any further questions, feel free to either reach out to Ashish Narkar or myself and we will be happy to provide you answers.

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