

UPL LIMITED

UPL's FY15 annual report analysis highlights sale of receivables of INR8.3b (FY14: INR6.2b) to UPL Finance BV—an unrelated party, adjusted for which the cash conversion cycle increased to 120 days (v/s the reported 95). Despite the sale of receivables, operating cash flow post interest declined from INR10.2b in FY14 to INR6.7b in FY15 due to increase in (a) loans and advances to INR5.7b (FY14: INR4.0b) and (b) finance cost to INR7.4b (FY14: INR4.3b). Revenue grew a mere 12% YoY to INR121b, while EBITDA margin increased 80bp to 19.5%. Forex fluctuations had an INR2.1b (15% of PBT) adverse impact on earnings. UPL has a natural hedge of forex borrowings against exports income; however, it continues to have exposure to derivative instruments—which leads to an increase in net unhedged forex position on a consolidated basis. UPL had cash and investments of INR13b (FY14: INR16b), generating a 4.4% yield; UPL also has debt of INR32.8b having a borrowing cost of 10.2%—the low yield and high borrowing cost may partially be due to seasonality of the business.

- **Sale of receivables to UPL Finance BV, an unrelated party, increases:** United Phosphorus, Inc. (a subsidiary) sold receivables of INR8.3b (FY14: INR6.2b) to UPL Finance BV—an unrelated party. Consequently, the receivables are derecognized and do not form part of receivable/contingent liabilities; adjusted for which the receivable days for FY15 will be higher by 25 days at 136 days.
- **Earnings-to-cash flow conversion declines from 80% in FY14 to 71% in FY15:** The decline was primarily on account of an increase in advance extended to INR5.7b (FY14: INR4.0b). Higher finance cost at INR7.4b (FY14: INR4.3b) further led to a decline in operating cash flow post interest to INR6.7b (FY14: INR10.2b).
- **Forex fluctuations continue to impact earnings:** UPL recognized a forex loss of INR3.2b (FY14: Gain of INR0.6b), partially offset by derivative gains of INR1.1b (FY14: Loss of INR1.4b). Some of the derivatives taken by the company increase unhedged positions on consolidated basis; this may be due to a combination of (a) net unhedged forex position on subsidiaries and (b) elimination of inter-company transactions on consolidation of subsidiaries (having a reporting currency other than INR)
- **Effective tax rates low at 17.3%:** This was primarily on account of routing of exports (~32% of export revenue) through subsidiaries domiciled in countries having low tax rates.
- **Rising payable days drive improvement in cash conversion cycle:** Over the last four years, reported cash conversion cycle improved to 95 days (FY12: 139 days), primarily on account of increase in payable days to 141 (FY11: 100 days)—led by standalone operations.

ART will present a threadbare portrait of annual reports - statistical, strategic and structured. We believe ART's wide canvas - from accounting and auditing issues to operating performance to management insights to governance matters - will help readers paint a clearer picture of the stock's investment worthiness.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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ANNUAL REPORT THREADBARE

The ART of annual report analysis



- UPL sold receivables of INR8.3b (FY14: INR6.2b) to UPL finance BV, an unrelated party.
- Operating cash flow post interest declined to INR6.7b (FY14: INR10.2b).
- Cash and investments generated average yield of 4.4% while debt had an average borrowing cost of 10.2%.

Stock Info

Bloomberg	UPL IN
CMP (INR)	425
Equity Shares (m)	428.6
52-Week Range (INR)	576/329
1,6,12 Rel. Perf. (%)	9/-7/39
M.Cap. (INR b) / (USD b)	182.2/2.7

Financial summary (INR b)

Y/E March	2015A	2016E	2017E
Sales	120.9	133.6	150.5
EBITDA	23.6	26.4	30.7
NP	11.5	12.8	16.5
Adj EPS (INR)	26.9	29.9	38.5
EPS Growth (%)	11.2	11.2	28.7
BV/Sh. (INR)	136.7	162.6	197.0
RoE (%)	20.8	20.0	21.4
RoCE (%)	21.7	22.1	24.0
Payout (%)	15.1	13.8	10.8

Valuations

P/E (x)	15.8	14.2	11.0
P/BV (x)	3.1	2.6	2.2
EV/EBITDA (x)	8.7	7.9	6.6
Div. Yield (%)	0.8	0.8	0.8

E: MOSL Estimates (Analyst estimates)

Shareholding pattern (%)

As on	Sep-15	Jun-15	Sep-14
Promoter	29.8	29.8	29.8
DII	9.9	9.1	8.5
FII	47.9	48.9	46.6
Others	12.4	12.2	15.1

Note: FII Includes depository receipts

Auditor's name

S R B C & Co LLP

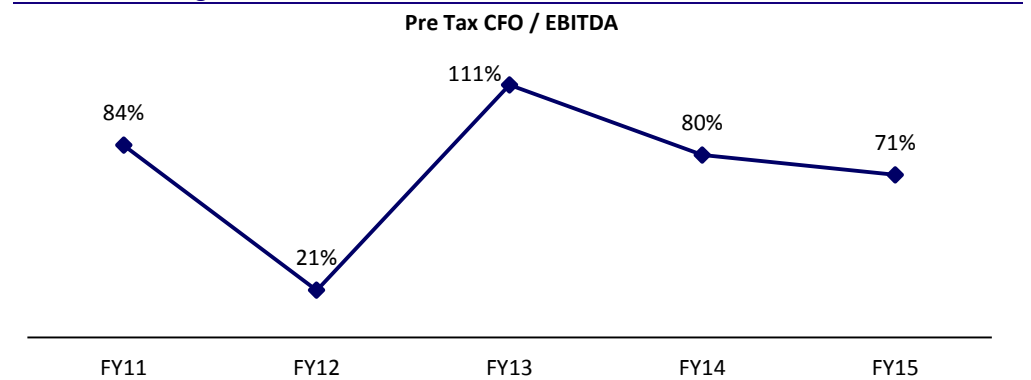
ART #1

ACCOUNTING & KEY FINANCIAL INSIGHTS

Operating cash flow declines despite increase in sale of receivables

- Operating cash flow before extraordinary items declined from INR15.3b in FY14 to INR14.6b in FY15, led by increase in working capital requirements.
- Cash conversion cycle remained flat at 95 days (FY14: 96 days). However, advances recoverable in cash or kind increased from INR4.0b in FY14 to INR5.7b in FY15. Further details on advances extended are not available.
- UPLL's receivables discounted on recourse basis stood at INR0.9b (FY14: INR2.12b) and are shown as a part of contingent liabilities.
- Further, United Phosphorus Inc, (a subsidiary) sold receivables of INR8.3b (FY14: INR6.2b) to UPL Finance BV—an unrelated party. Consequently, the receivables have been derecognized and also do not form part of contingent liabilities.
- Adjusted for sale of receivables cash conversion cycle stood at 120 days (v/s reported of 95 days)
- Free cash flow post interest declined from INR4.5b in FY14 to negative INR1.1b in FY15. The decline was led by (a) steep increase in finance cost paid from INR4.3b in FY14 to INR7.4b in FY15 and (b) increase in capex from INR5.7b in FY14 to INR7.8b in FY15

Earnings-to-cash flow conversion deteriorates despite increase in sale of receivables of INR8.3b (FY14: INR6.2b) to UPL Finance BV—an unrelated party.

Exhibit 1: Earnings-to-cash conversion deteriorates

Source: Company Annual Report, MOSL

Exhibit 2: FCF turns negative on rising capex and finance cost (INR b)

Particulars	Standalone		Subsidiary (derived)		Consolidated	
	FY14	FY15	FY14	FY15	FY14	FY15
Net profit before taxation, and extraordinary items	5.5	5.8	7.0	8.4	12.6	14.2
Add/(Less): Non-cash adjustments	1.5	1.6	3.1	2.7	4.6	4.3
Add/(Less): Non-Operating adjustments	0.5	(2.1)	3.4	6.6	3.9	4.4
Less: Direct taxes paid	(1.1)	(1.2)	(0.6)	(1.6)	(1.8)	(2.8)
Oper. profit bef. w/cap changes	6.4	4.1	12.9	16.0	19.3	20.2
Inventories	(2.5)	(3.0)	(1.6)	(1.7)	(4.1)	(4.7)
Trade receivables	3.9	(0.1)	(10.3)	(4.9)	(6.4)	(5.0)
Other current assets	(0.2)	(0.0)	0.0	(0.4)	(0.2)	(0.4)
Loans and advances	(0.9)	(0.4)	0.4	(1.7)	(0.5)	(2.1)
Trade payables	4.5	3.8	1.6	1.8	6.2	5.6
Long term & Short term provisions	0.1	0.1	0.1	(0.4)	0.1	(0.3)
Current liabilities and provisions	0.1	0.4	0.8	0.9	0.9	1.3
Cash generated from operations before exceptional Items	11.4	5.0	3.9	9.7	15.3	14.6
Exceptional Items	-	-	(0.8)	(0.5)	(0.8)	(0.5)
Prior Period Adjustments	-	-	(0.2)	(0.0)	(0.2)	(0.0)
Net Cash from Operating Activities	11.4	5.0	3.0	9.1	14.4	14.1
Less: Financial cost	(1.9)	(2.4)	(2.4)	(4.9)	(4.3)	(7.4)
Cash generated from operations post interest	9.5	2.5	0.7	4.2	10.2	6.7
Less: Capital expenditure	(3.2)	(3.9)	(2.5)	(3.9)	(5.7)	(7.8)
Free cash flows post interest	6.3	(1.3)	(1.8)	0.3	4.5	(1.1)

Source: Company Annual Report, MOSL

Rising payable days lead to improvement in cash conversion cycle

Rising payable days on standalone levels improve reported cash conversion cycle over FY12-FY15.

- Over the last four years, the improvement in cash conversion cycle from 139 days in FY12 to 95 days in FY15 is primarily on account of (a) increase in the payable days from 100 days in FY12 to 141 days in FY15, and (b) Sale of receivables by United Phosphorus Inc.
- The increase in the payable days is primarily on account of the standalone operations, wherein the payable days have jumped steeply from 115 days in FY12 to 200 days in FY15.

Exhibit 3: Cash conversion cycle improves primarily on increase in payable days at the standalone entity

Particulars	Standalone				Consolidated			
	FY12	FY13	FY14	FY15	FY12	FY13	FY14	FY15
Inventory Days	102	95	109	136	125	117	120	129
Receivable Days	153	167	104	97	119	107	109	111
Advances from customers	5	5	4	3	5	4	2	4
Payable Days	115	147	171	200	100	119	131	141
Cash conversion cycle (Days)	135	110	38	30	139	101	96	95

Note: On closing basis; Source: Company Annual Report, MOSL

Exhibit 4: Receivable days continue to remain elevated in LATAM and USA (INR b)

Subsidiary Name	Sales		Sales excluding Related Party		Receivable Days		Receivable Days (Ex Related Party)	
	FY14	FY15	FY14	FY15	FY14	FY15	FY14	FY15
UPL do Brasil Indústria e Comércio de Insumos Agropecuários S.A.	14.3	14.7	14.2	14.7	262	298	264	298
UPL Agro S.A. de C.V.	3.0	3.2	3.0	3.2	62	91	62	91
Icona S A	1.7	2.5	1.5	2.3	233	188	264	145
UPL Costa Rica S.A	1.3	1.6	1.0	1.4	94	78	56	64
UPL Europe Limited	9.2	8.9	NA	NA	80	59	NA	NA
UPL France	0	3.4	0	3.3	0	87	0	85
UPL (Cerexagri)	6.6	4.2	6.6	0.0	117	173	117	NM
Cerexagri (B.V.)	2.3	2.5	0.9	0.7	344	309	89	201
UPL (Benelux)B.V.	3.2	1.9	2.0	1.7	60	240	27	6
UPL Deutschland GmbH	2.9	2.2	2.9	2.1	195	127	7	18
Decco US Post - Harvest Inc.	1.9	2.4	1.8	2.3	59	69	41	36
United Phosphorus Inc.*	19.2	21.1	19.0	20.8	42	48	41*	47*
Bio win Corporation	5.1	6.3	0.5	0.3	1,965	1,610	181	829
United Phosphorus Limited, Gibraltar	0	0.8	0	0		2,159		
UPL LIMITED,Gibraltar	17.2	18.5	3.1	2.3	356	416	1,615	1,225
UPL Limited,Hong Kong	2.5	3.4	1.2	1.2	273	229	322	305
UPL Italia S.R.L.	2.3	2.3	2.3	2.2	370	402	245	215
SWAL Corporation Limited	4.1	4.9	4.1	4.9	55	73	53	66
Standalone	49.7	53.3	25.7	29.6	104	97	72	91
UPL Limited, Mauritius	0	5.3	0	0.3	NA	451	NA	579
United Phosphorus Cayman Limited	2.2	2.6	1.8	2.2	65	100	12	12
Riceco International, Inc.	2.6	2.5	0.9	0.8	156	175	184	257
UPL Australia Limited	1.1	1.3	NA	NA	41	36	NA	NA

*including sale of receivables of INR8.3b (FY14: INR6.2b) receivable days stood at 192 days (FY14: 160 days)

Note: days calculated on closing basis; Source: Company Annual Report, MOSL

Revenue growth and margin expansion led by subsidiaries

- On consolidated basis, UPLL's revenue grew 12% YoY to 121b in FY15. The revenue growth was led by subsidiaries wherein the revenue contribution increased 17.2% YoY to INR68b. On a standalone basis, revenue increased 7%YoY to INR53b.
- EBITDA margin increased to 19.5% in FY15 from 18.7% in FY14, primarily on gross margin expansion. However, for the standalone entity, EBITDA margin declined to 10.5% in FY15 from 13.4% in FY14 on higher operating cost.

Exhibit 5: Subsidiaries' performance leads to growth in operating earnings

Particulars	Standalone				Subsidiary (Derived)				Consolidated			
	FY14		FY15		FY14		FY15		FY14		FY15	
	(INR b)	%	(INR b)	%	(INR b)	%	(INR b)	%	(INR b)	%	(INR b)	%
Net Revenue (Operations)	49.7	100.0	53.3	100.0	58.0	100.0	67.6	100.0	107.7	100.0	120.9	100.0
Raw Materials Consumed	26.6	53.6	28.2	52.9	27.8	47.9	31.9	47.2	54.4	50.5	60.2	49.8
Gross Margin	23.1	46.4	25.1	47.1	30.2	52.1	35.6	52.8	53.3	49.5	60.7	50.2
Operating and Administrative Expenses	13.8	27.8	16.3	30.6	9.8	16.9	10.4	15.4	23.6	21.9	26.7	22.1
Personnel Cost	2.6	5.2	3.2	6.0	6.9	11.9	7.3	10.7	9.5	8.8	10.4	8.6
EBITDA	6.7	13.4	5.6	10.5	13.5	23.3	18.0	26.6	20.2	18.7	23.6	19.5

Source: Company Annual Report, MOSL

Forex fluctuation impacts earnings adversely....

- During FY15, INR appreciated against most currencies (~26.4% against BRL; by ~18.2% against Euro); however, it declined 4.3% versus the USD.
- UPLL had significant unhedged forex payables as at the end of FY15. Refer to **Exhibit 9** for details.
- UPLL recognised foreign exchange loss of INR3.2b (v/s gain of INR0.6b in FY14) mainly comprising of:
 - (a) Forex loss of INR0.9b in FY15 (v/s gain of 0.1b in FY14) on operations as part of other income, and
 - (b) Forex losses of INR2.3b (v/s gain of INR0.5b in FY14) on loans as part of finance cost.

Forex fluctuations had an
INR2.1b (15% of PBT)
adverse impact on earnings.

... However, partially cushioned by gains on derivatives

- UPLL has forex debt, which acts as a natural hedge for foreign exchange earnings.
- Further, UPLL had derivative contracts outstanding as of FY15. Refer to **Exhibit 11** for details. Some of the contracts lead to an increase in net unhedged position.
- The net unhedged position on the consolidated basis can be on account of combination of (a) net unhedged foreign position at the subsidiary level and (b) elimination of inter-company transactions on consolidation of subsidiaries (having a reporting currency other than INR).
- UPLL recognized a gain of INR1.1b on derivatives in FY15 (v/s a loss of INR1.4b in FY14)—as part of net finance cost.
- The gains and losses on derivatives were primarily on account of standalone operations, wherein the company recognized a gain of INR1.2b in FY15 (v/s a loss of INR1.4b in FY14)

Exhibit 6: Forex impact on standalone (INR b)

Particulars	FY14	FY15
Other income	1.2	-0.2
Finance Cost - Gain/ (loss)	-0.7	-0.1
Gross Foreign Exchange Gain/ (Loss)	0.5	-0.3
Derivatives Instruments- Gain/(loss)	1.4	-1.2
Net Foreign Exchange Gain/ (Loss)	1.9	-1.5

Source: Company Annual Report, MOSL

Exhibit 7: .. and consolidated entity adverse (INR b)

Particulars	FY14	FY15
Other income	0.1	-0.9
Finance cost - Gain/ (loss)	0.5	-2.3
Gross Foreign Exchange Gain/ (Loss)	0.6	-3.2
Derivatives Instruments- Gain/(loss)	-1.4	1.1
Net Foreign Exchange Gain/ (Loss)	-0.8	-2.1

Source: Company Annual Report, MOSL

Exhibit 8: Low net unhedged exposure on standalone ('000)

Nature of Instrument	Currency	FY14	FY15
1. Payable	USD	383,467	327,478
	EUR	28,827	26,903
	GBP	202	176
	JPY	128	27,572
2. Receivable	USD	394,150	305,279
	EUR	34,591	17,782
	AUD	1,815	1,588
	GBP	10	10
	AED	18	-
	CHF	-	19

Source: Company Annual Report, MOSL

*(including Foreign Currency payable in respect of derivative contracts as mentioned in Exhibit-10 below)

Exhibit 9: High net unhedged exposure on consolidated ('000)

Nature of Instrument	Currency	FY14	FY15
1 Payable	USD	743,479	708,647
	EUR	33,395	57,057
	GBP	260	2,310
	CHF	4	38
	DKK	1,118	1,099
	PLN	-	7
	MUR	20	43
2 Receivable	USD	224,833	143,503
	EUR	15,893	23,351
	GBP	124	2,109
	DKK	3,879	51
	JPY	145,291	176,303
	AUD	5,113	10,795
	MUR	4,506	180
	PLN	55	116
	AED	18	-
	NZD	-	75
	CHF	-	19

Source: Company Annual Report, MOSL

*(including Foreign Currency payable in respect of derivative contracts as mentioned in Exhibit-11 below)

Exhibit 10: Standalone derivative exposure outstanding ('000)

Nature of Instrument	Currency	FY14	FY15
(a) Forward contracts - Sell	USD	4,000	-
Forward contracts - Sell	EUR	4,119	24,843
Forward contracts - Buy	USD	-	64,577
(b) Derivative contracts			
(i) Full Currency Interest Rate Swap contracts – payable*	USD	233,853	177,585
Full Currency Interest Rate Swap contracts – payable*	EUR	25,667	25,667

Source: Company Annual Report, MOSL

*Note:- a) Company will receive principal in INR and pay in foreign currency, b) Company will receive fixed interest in INR and pay fixed / floating interest in foreign currency.

Exhibit 11: Consol. derivative exposure outstanding ('000)

Nature of Instrument	Currency	FY14	FY15
(a) Forward contracts - Sell	USD	4,307	2,127
Forward contracts - Sell	EUR	4,119	24,843
Forward contracts - Buy	USD	7,141	157,057
(b) Derivative contracts			
(i) Full Currency Int.Rate Swap contracts – payable*	USD	233,853	177,584
Full Currency Interest Rate Swap contracts – payable*	EUR	25,667	25,667
(ii) Interest Rate Swaps on Loans Payable	USD	243,275	202,948

Source: Company Annual Report, MOSL

*Note:- a) Company will receive principal in INR and pay in foreign currency, b) Company will receive fixed interest in INR and pay fixed / floating interest in foreign currency.

INR3.1b of adverse impact on translation of foreign subsidiaries.

Exhibit 12: Translation losses dampen net worth accretion (INR b)

Particulars	FY14	FY15
Opening net worth	46.5	52.5
Add: Profit for the year	9.5	11.4
Less: Dividend (including tax)	(2.0)	(2.6)
Issue of shares	-	-
Buyback of Shares	(0.0)	-
Capital Reserve	0.0	0.3
Securities Premium Account	(2.8)	0.0
Capital Redemption Reserve	0.0	-
Foreign Currency Translation Reserve	1.2	(3.1)
General Reserve	-	-
Surplus in the Consolidated Statement of Profit and Loss	0.2	0.1
Closing net worth	52.5	58.6

Source: Company Annual Report, MOSL

Gains on sale of associate contain exceptional losses

- Exceptional/prior period losses declined to INR0.1b in FY15 v/s INR1.0b in FY14, primarily on account of gain of INR0.6b on sale of stake in Sipcam UPL Brazil—an associate.
- Restructuring and reorganization cost of Latam and European businesses stood at INR0.4b (v/s INR0.5b in FY14).

Exhibit 13: Exceptional and prior period losses decline on sale of associate (INR m)

Particulars	FY14	FY15
Exceptional Items		
Restructuring/reorganization Cost	554.4	427.1
Compounding fees	198.6	-
Provision for diminution in value of Investment	100.0	100.0
Fraudulent withdrawal	-	70.9
Profit on sale of Associates	-	(568.1)
Total	853.0	29.9
Prior Period Items		
Material cost pertaining to earlier years	126.0	43.3
Others (net)	29.5	5.5
Total	155.5	48.8

Source: Company Annual Report, MOSL

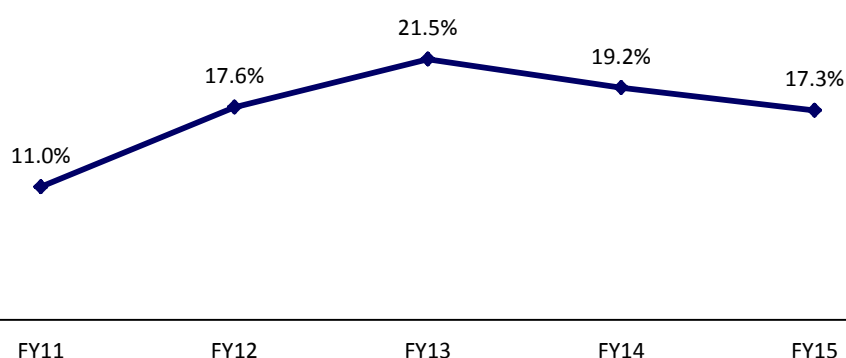
Restructuring/
reorganization cost of
Latam and European
operations continued

Effective tax rate remains low on routing exports through low tax countries

- UPLL's consolidated tax rate remained low at 17.3% (FY14: 19.2%) due to (a) investment based tax incentives and dividend income from subsidiaries available at the standalone level leading to an effective tax rate of 20.7%, and (b) routing of exports sales through subsidiaries domiciled in countries with low tax rates.

Exhibit 14: Effective tax rate remains low

Exports through countries
having low tax rates keep
effective tax rate low.



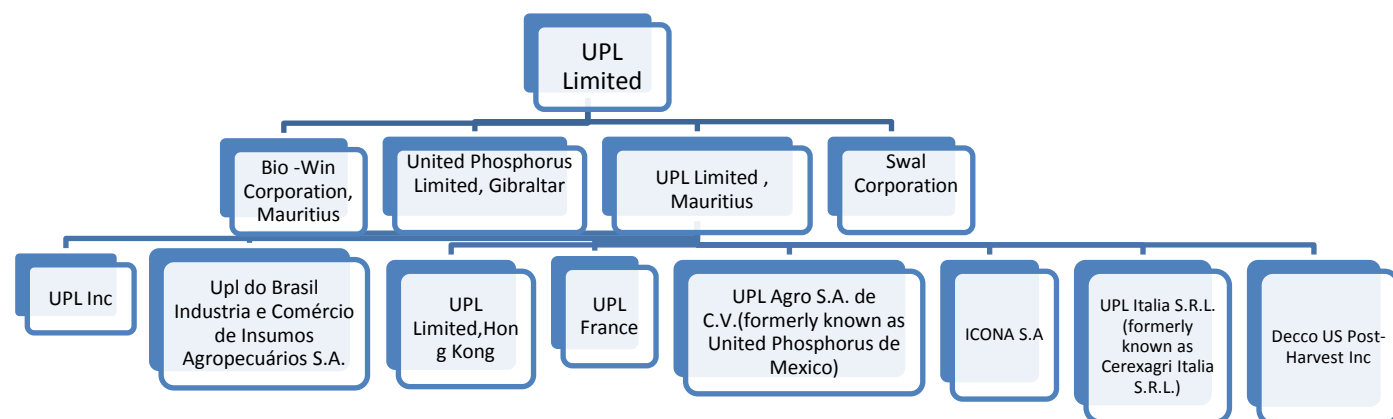
Source: Company Annual Report, MOSL

- UPLL routes its exports sales primarily through three subsidiaries (a) UPL Limited, Gibraltar, (b) Bio-win Corp, Mauritius and (c) UPL, Mauritius; the sales from these is primarily to fellow subsidiaries at a significant margin and have low tax rates.
 - UPL, Gibraltar FY15 revenue stood at INR18.5b—of which ~INR15b was to related parties. PAT margin for FY15 stood at 18%—2x consolidated PAT margin.
 - Bio-win Corp. FY15 revenue stood at INR6.5b—of which 95% is to related parties. PAT margin for FY15 was 56%—6x consolidated PAT margin.
 - UPL, Mauritius FY15 revenue stood at INR5.3b—of which INR5b pertains to related parties. PAT margins stood at 41%— ~4.6x consolidated PAT margin.

Exhibit 15: Low tax rates in subsidiaries having high margins (INR b)

Subsidiary	FY14				FY15			
	Net Worth	Revenue	PAT Margin	ETR	Net Worth	Revenue	PAT Margin	ETR
United Phosphorus Inc.	4.2	19.1	3%	27%	5.1	21.1	3%	35%
UPL LIMITED,Gibraltar (Formerly Known as Uniphos Limited,Gibraltar)	8.3	17.2	20%	0%	11.9	18.5	18%	0%
Bio-win Corporation Limited	8.8	5.1	47%	-1%	6.8	6.3	56%	0%
UPL Limited, (formerly known as Uniphos Limited)	3.4	-	0%	0%	4.2	5.3	41%	0%
Upl do Brasil Industria e Comércio de Insumos Agropecuários S.A.	5.5	14.3	1%	23%	4.8	14.7	6%	41%
UPL Europe Limited (formerly known as United Phosphorus Limited)	5.1	9.2	3%	21%	4.9	8.9	1%	22%
SWAL Corporation Limited	0.5	4.1	2%	32%	0.6	4.9	3%	34%
Cerexagri S.A.S.	2.1	6.6	3%	13%	2.0	4.2	6%	-11%
UPL Limited,Hong Kong(Formerly Known as United Phosphorus Limited, Hongkong)	0.4	2.5	6%	0%	0.8	3.4	10%	0%
UPL France (formerly known as Aspen SAS)	0.0	-			0.3	3.4	1%	-19%
UPL Agro S.A. de C.V.(formerly known as United Phosphorus de Mexico, S.A. de C.V.)	0.2	3.0	1%	53%	0.0	3.2	0%	69%
Icona S A	0.1	1.7	32%	36%	0.0	2.5	5%	16%
Decco US Post-Harvest Inc	0.4	1.9	6%	33%	0.7	2.4	9%	38%
UPL Italia S.R.L. (formerly known as Cerexagri Italia S.R.L.)	0.2	2.3	0%	85%	0.2	2.3	0%	75%

Source: Company Annual Report, MOSL

Exhibit 16: Routing exports through counties with low tax regime

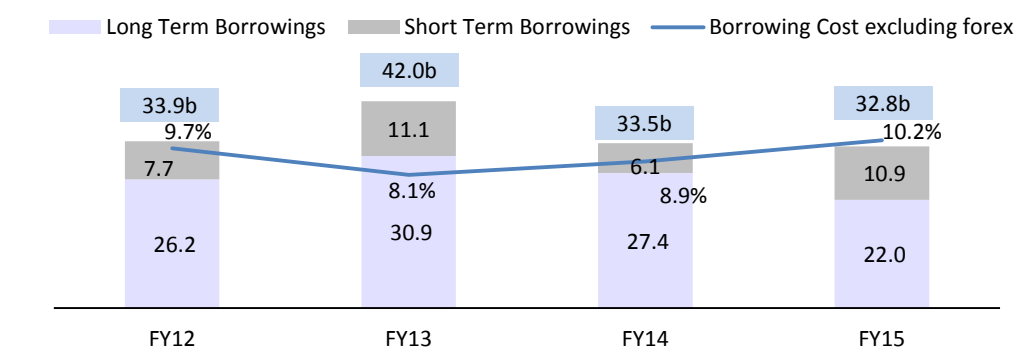
Source: Company Annual Report, MOSL

Debt declines marginally while borrowing cost rises

- Debt declined marginally from INR33.5b in FY14 to INR32.8b in FY15.
- Long-term debt (including current maturities) declined from INR27.4b in FY14 to INR22.0b in FY15. However, short-term loans increased from INR6.1b in FY14 to INR10.9b in FY15.
- A significant proportion of the external debt availed by the standalone entity and Bio-win Corporation (which is guaranteed by the standalone entity).
- Borrowing cost (excluding forex) charged to P&L increased to 10.2% in FY15 from 8.9% in FY14, while borrowing cost including forex increased to 13.6% in FY15 (FY14:11.3%).Part of the high borrowing cost may be on account of seasonality of business & the reported debt position being as of a certain date.

- Finance cost charged to income statement stood at INR5.2b (FY14:INR4.9b); however, interest and finance charges paid stood at INR7.4b (FY14: INR4.3b).

Exhibit 17: Debt declines marginally, shifts from long term to short term (INR b)



Source: Company Annual Report, MOSL

Exhibit 18: Significant external debt availed by standalone entity and Bio-win (INR b)

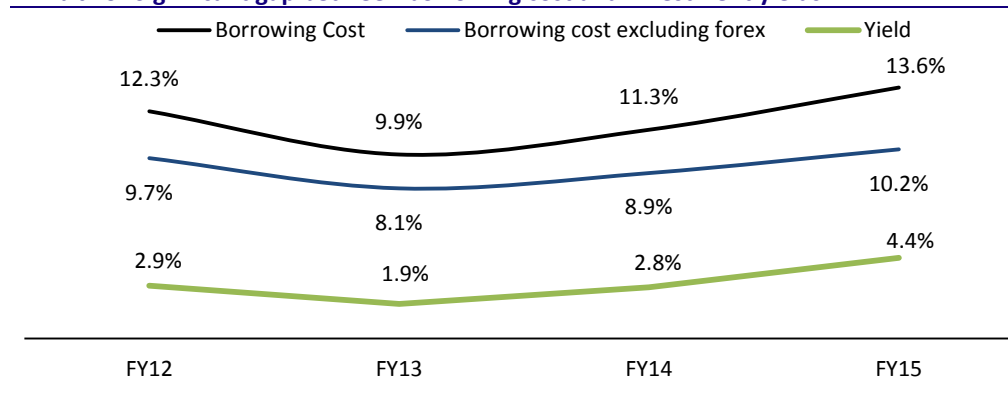
Particulars	FY14	FY15
UPL do Brasil	1.7	2.6
Icona S A	0.6	0.6
Bio-Win Corporation	12.9	11.4
Standalone	14.2	13.8
Others	4.1	4.5
Total	33.5	32.8

Source: Company Annual Report, MOSL

Cash and investment at 22% of net worth; yields 4.4% returns

- Cash and investment stood at INR13b, 22% of net worth (FY14: INR 16b, 30% of net worth). Yield on investment remained low at 4.4% (FY14: 2.8%).
- Low yield on cash and investments are primarily on account of (a) high current account balance of INR4.3b (FY14: INR6.9b) which may be on account of seasonality in business & the reported cash position being as of a certain date, and (b) INR4.7b (FY14: INR2.8b) of fixed deposits made outside India.

Exhibit 19: Significant gap between borrowing cost and investment yields



Source: Company Annual Report, MOSL

Intangible asset at 43% of net worth

- Intangible assets increased to INR25.1b in FY15 (FY14: INR22.8b). The increase is primarily on account of increase in goodwill on consolidation to INR14.5b in FY15 (FY14: INR12.1b) due to increase in holding of subsidiary UPL DO BRASIL S.A. from 73% to 100%

Exhibit 20: Significant proportion of net worth invested in intangibles

	Particulars	FY14	FY15
Goodwill on consolidation rises on account of increasing stake in UPL Do Brasil.	Intangible Assets-Acquired	9.6	8.2
	ITUD	1.0	2.4
	Goodwill on Consolidation	12.1	14.5
	Total	22.8	25.1
	Intangibles % of net worth	43.4%	42.8%

Source: Company Annual Report, MOSL

ART #2 **MANAGEMENT SPEAK/KEY PLANS****Global agrochemical industry**

- An emerging trend in the global agrochemicals market was the increasing research & development in bio-pesticides to compete with organic farming and integrated pest management.
- Between 2009 and 2014, several molecules went off patent while some are on the verge of patent expiry—opening opportunities for other generic agrochemical players. According to FICCI, the total feasible opportunity is estimated at over USD3b.
- The global crop protection chemicals market is projected to reach USD69.6b by 2019, with an estimated CAGR of 5.5% from 2014 to 2019.

Achievements in FY15

- Used in-house technologies to introduce Glufosinate in India.
- **Adopted an asset-sweating model:** UPL generated higher revenue through a progressively higher asset utilization coupled with value addition (make-or-buy approach).
- **Commissioned two plants within best-in-class timelines:** UPL commissioned two herbicide manufacturing plants at Jhagadia within nine months. The company also established a coal-fired boiler at Jhagadia within 15 months, an industry benchmark.

Outlook

- Under current agricultural policies in India, consumption growth between 2009 and 2050 is likely to be strongest for fruits (246%), vegetables (183%) and dairy products (137%)—which together account for 77% of the total projected rise in food consumption by 2050. While the demand for food has largely been met by domestic products, food imports have also risen.
- UPLL aims to focus on superior supply chain management, smarter procurement as well as comprehensive administration and control at its facilities.
- Capacity expansion in Colombia and Rotterdam is expected to transpire in FY16.
- UPLL is setting up active ingredient manufacturing plants in India, Europe and America to enhance market proximity at a time when China is emerging as a higher cost global player.

Brazil—a key UPL target market

- Brazil is an agricultural powerhouse— total volume of agricultural production in 2014 accounted for 5.8% of GDP. The country is the world's biggest producer and exporter of coffee, sugar and orange juice, the biggest meat exporter, the second-biggest producer and exporter of soy products as well as a major grower of corn. In 2014, Brazil's agricultural exports to China represented 22% of the former's total agricultural exports.
- The national consumption of agrochemicals is equivalent to 5.2 liters of agrochemicals per year per inhabitant. Importantly, the release of transgenic seeds in Brazil was one of the factors responsible for making it the top

consumer of agrochemicals since the cultivation of these modified seeds requires the use of large quantities of these products.

- Brazil corn production for FY15 was pegged at 75 million tonnes, down 5 million tonnes from last year. The area is estimated at 15 million hectares, down 0.8 million hectares from the previous year. Yield is forecast at 5 tonnes per hectare, down 1.2% from the previous year. A decline in the first season crop estimate was offset by an increase in the second season forecast.

ART #3 GOVERNANCE MATTERS**Directors regular in attending board meetings**

- UPLL is regular in calling board meetings as per the prescribed laws. Four board meetings were held in FY15.
- The board comprises 12 directors, out of which 4 are promoter directors, 2 are non-promoter executive directors and 6 are independent directors (out of which 4 have been on the board for more than 10 years).
- All directors attend more than 50% of the meetings in FY15.

Exhibit 21: Directors regular in attending board meetings

Name of Director	Category	Attendance Particulars	
		Board Meeting	Last AGM
Mr. R. D. Shroff	Promoter and Executive Chairman and Managing Director	4	Yes
Mrs. S. R. Shroff	Promoter and Non-Executive Vice Chairman	4	No
Mr. J. R. Shroff	Promoter and Non-Executive Director	4	Yes
Mr. V. R. Shroff	Promoter and Non-Executive Director	4	No
Mr. A. C. Ashar	Non-Promoter and Executive Director	4	Yes
Dr. P. V. Krishna	Independent and Non-Executive Director	3	Yes
Mr. Pradeep Goyal	Independent and Non-Executive Director	3	Yes
Mr. K. Banerjee	Non Promoter and Executive Director	3	Yes
Dr. Reena Ramachandran	Independent and Non-Executive Director	4	Yes
Mr. Pradip Madhavji	Independent and Non-Executive Director	4	Yes
Mr. Vinod Sethi	Independent and Non-Executive Director	4	Yes
Mr. Suresh P. Prabhu [@]	Independent and Non-Executive Director	2/3	No
Mr. Hardeep Singh [*]	Independent and Non-Executive Director	1/1	N.A.

[@] Resigned with effect from 7th November, 2014; ^{*}Appointed as an additional Director with effect from 2nd February, 2015;

Source: Capital line, Company Annual Report, MOSL


Auditor rotation likely as per the Companies Act 2013

Statutory auditors to be mandatorily changed post FY17, in accordance with the new Companies Act.

- Member firms of Ernst and Young have been the auditors of UPLL since FY04.
- The Companies Act (2013) requires mandatory rotation of auditors for listed entities after serving for 10 consecutive years. The Act further provides a three-year period (from April 1, 2014) to comply with the requirement.


NOTES

ART COMPANIES



MITTHAL OSWAL
PRACTICE

13 October 2018



**ANNUAL
REPORT**

THREADHEAD

The ART of annual report analysis

SUN PHARMACEUTICAL

SAPM P123 awarded report analysis highlights 70% rise in revenue to INR275.5 crore, additional provisions declined to INR 2.75, P124 45.5% led by Ranbaxy's revenue decline. Legal and consultancy charges increased to INR42.4 (24.4% of PBT) v/s INR 34 in FY14 while, additional provision of INR10.15 (2.5% of PBT) was recognised towards doubtful, Unutilised foreign funds increased to INR40.78 (2.6% of PBT) v/s INR36.14 in FY14. Tax rate remained at 14.2% on account of tax incentives available on the tax savings of INR80.28. (No recognition of P14 of INR7.30 and (c) no taxation in the Dubai entities. Contingent liability for tax disputes remained at INR 14.25 crore (2.5% of PBT) v/s INR 14.25 crore (2.0% of net worth), which INR13.65 pertains to acquisition grant which which represents loans (products to products) which in our view should be amortised.

• Revenue jump 73% FY16 to INR275.50: EBITDA margin declined to INR14.28 (26.2% of net) (b) Ranbaxy's revenue relative cost of sales increased from business and (c) INR14.28 operating profit increase 54% for FY16 to INR50.35 in FY15.

• INR15 of asset, providing increased INR4500000 due to INR15.45 P124, SAPM was an initial provision of INR2.30 (0.50% of net).

• Legal, professional and consultancy charges increased to INR42.4 IN FY14. INR44.04 of which, INR40.15 P124 to INR23.25 (P123).

• Tax rate remained low at 14.2% contingent liability for tax disputes due to INR80.28 v/s INR75.12 in FY14. Tax rates remained low on account of (a) tax incentives on profits of INR11.5 of the Dubai subsidiary, (b) INR12.30 of tax savings on account of P14, structuring and (c) no taxation recognition of INR7.30.

• Goodwill on consolidation increased to INR175.14 (14% of net worth), primarily on consolidation of INR15.45 P124. Goodwill increased for SUN Pharmaceutical industries INR 4 which was highly subsidiary from INR7.30 in FY14 to INR15.15 in FY15.

• Intangible assets rose INR25.5 (8.8% of net worth), primarily comprising goodwill grant of which represents for acquisition of transaction of business of Ranbaxy subsidiary INR15.45 P124, primarily on acquisition of DUSA and UPL in FY13 and P124 which, though report believe that it should be amortised, the company term goodwill is permanent.

ART will present a broader picture of financial, operational and compliance in the annual report. The annual report will be available on company website and will continue to enhance the transparency and accountability of the company.

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Annual Report Summary FY15

	2015	2014	2013
Revenue	275.50	158.50	91.50
Profit	50.35	36.14	36.14
Exp. P123	45.50	34.00	34.00
Exp. P124	14.25	14.25	14.25
Exp. P125	14.25	14.25	14.25
Exp. P126	14.25	14.25	14.25
Exp. P127	14.25	14.25	14.25
Exp. P128	14.25	14.25	14.25
Exp. P129	14.25	14.25	14.25
Exp. P130	14.25	14.25	14.25
Exp. P131	14.25	14.25	14.25
Exp. P132	14.25	14.25	14.25
Exp. P133	14.25	14.25	14.25
Exp. P134	14.25	14.25	14.25
Exp. P135	14.25	14.25	14.25
Exp. P136	14.25	14.25	14.25
Exp. P137	14.25	14.25	14.25
Exp. P138	14.25	14.25	14.25
Exp. P139	14.25	14.25	14.25
Exp. P140	14.25	14.25	14.25
Exp. P141	14.25	14.25	14.25
Exp. P142	14.25	14.25	14.25
Exp. P143	14.25	14.25	14.25
Exp. P144	14.25	14.25	14.25
Exp. P145	14.25	14.25	14.25
Exp. P146	14.25	14.25	14.25
Exp. P147	14.25	14.25	14.25
Exp. P148	14.25	14.25	14.25
Exp. P149	14.25	14.25	14.25
Exp. P150	14.25	14.25	14.25
Exp. P151	14.25	14.25	14.25
Exp. P152	14.25	14.25	14.25
Exp. P153	14.25	14.25	14.25
Exp. P154	14.25	14.25	14.25
Exp. P155	14.25	14.25	14.25
Exp. P156	14.25	14.25	14.25
Exp. P157	14.25	14.25	14.25
Exp. P158	14.25	14.25	14.25
Exp. P159	14.25	14.25	14.25
Exp. P160	14.25	14.25	14.25
Exp. P161	14.25	14.25	14.25
Exp. P162	14.25	14.25	14.25
Exp. P163	14.25	14.25	14.25
Exp. P164	14.25	14.25	14.25
Exp. P165	14.25	14.25	14.25
Exp. P166	14.25	14.25	14.25
Exp. P167	14.25	14.25	14.25
Exp. P168	14.25	14.25	14.25
Exp. P169	14.25	14.25	14.25
Exp. P170	14.25	14.25	14.25
Exp. P171	14.25	14.25	14.25
Exp. P172	14.25	14.25	14.25

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MOTILAL OSWAL
PRACTICE PROBLEMS

HERO MOTORCOPT V/S BAJAJ AUTO

A comparative analysis of Hero MotoCorp (HMCPL) and Bajaj Auto's (BAJAJ) annual reports highlights varying trends in the two sector leaders' critical metrics. Metrics such as capital expenditure, dividend payouts, managerial remuneration, and cash flow are closely scrutinized. Bajaj Auto's financials show a strong upward trend, while Hero MotoCorp's performance is more mixed, with a notable decline in certain key areas.

Where BAJAJ stands out

- **Capital Expenditure:** Over the last ten years, HMCPL invested 4% of funds for fixed assets, while BAJAJ invested 14% in fixed assets. BAJAJ invested 11% for capex, distributed 4% as dividend, and retained 30% of cash and investments. HMCPL's fixed dividend from 2013 to FY12 is 400% of HMCPL's. Decreased from 15% in FY11 to 13% in FY12 due to cash accumulation.
- **Investment payouts:** Over FY12-13, HMCPL's investment payouts were 5.60% as against BAJAJ's 7.91%. HMCPL's investment payouts decreased from 100% (90% of net worth) in FY12 to 100% (77% of net worth) in FY13. BAJAJ's investment payouts increased from 100% (20% of net worth) in FY12 to 100% (32% of net worth) in FY13.
- **Dividend Payout:** The dividend rate at FY12/13, BAJAJ's contingent liability as 10% (13% of net worth) remains significantly higher than HMCPL's 10% (0.1% of net worth).

Where BAJAJ comes up short

- **Cash flow conversion:** Earnings to cash flow conversion remained superior for BAJAJ, with median pre-tax CROEBITDA of 95% as against 82% for HMCPL. The primary cause of BAJAJ's higher cash flows, partially offset by highly reasonable days of inventory over the last five years.
- **Management remuneration:** HMCPL's managerial remuneration has been 2-4% of free cash flow over last five years against BAJAJ's 12%.
- **Related party transactions:** In FY13, related parties accounted for 13.3% of HMCPL's expenditures, as against 12% of BAJAJ's expenditures were at 0.23%.
- **Accounting policy:** BAJAJ expensed the exchange fluctuation through the P&L, while amortizes the exchange fluctuation through long term assets and capitalizes the surplus to the period as per the grandfather (Future R20) method (depreciation). As mentioned by HMCPL over a period of three years (10 years if accepted), while HMCPL amortizes, it's more a period of five years. HMCPL currently does not amortize but capitalizes R20 for development.

ART

6 September 2013

ANNUAL REPORT

T HREADBADE

The ART of annual report analysis

HMCPL vs BAJAJ
This article, based on the annual reports of Hero MotoCorp and Bajaj Auto, compares the two companies across various financial and operational metrics. The analysis highlights Bajaj Auto's superior performance in capital expenditure, dividend payouts, and cash flow conversion, while also noting areas where Hero MotoCorp's performance is more mixed.

• **Best decision for Hero MotoCorp:** Bajaj Auto's strong performance in capital expenditure, dividend payouts, and cash flow conversion. Bajaj Auto's investment payouts were 7.91% as against HMCPL's 5.60%.

• **Best decision for Bajaj Auto:** Bajaj Auto's strong performance in capital expenditure, dividend payouts, and cash flow conversion. Bajaj Auto's investment payouts were 7.91% as against HMCPL's 5.60%.

Parameters to Compare

Cash Allocation

Investment Flow

Dividend Payout

Earnings to Cash Flow

Capital Expenditure

Accounting policy conversion

Low level of balance sheet

Related party

Managerial remuneration

Strong **Medium** **Average** **Weak**

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MORTAL OSWAL

Rationalization of corporate tax rates

Instituting priorities and towers

In FY15, Union Budget, Government proposed to gradually reduce the corporate tax rate from 30% to 25% during FY17-23. In this report, we analyse the impact of reduction in corporate tax rates on companies, including its implications on deferred tax and minimum alternate taxes.

• Marginal corporate tax rate of 34% v/s effective tax rate of 17% while the marginal corporate tax rate is higher at 34% including foreign surcharge and cess, and the effective tax rate is 23.2% in FY14 due to various exemptions/incentives. This leads to extensive litigation and loss of revenues for the Government. During the corporate tax exemption, accelerated depreciation @ 30% in plant and machinery consumes "38% of the major tax exemptions".

• Two thirds of India's highest tax payers EITR above 12,36% are division of MNCs/COEs (International financial statements) including major foreign and local companies. However, only 10% of India's corporate EITRs (22.26%, Gamma India and Tata Plastics have the lowest EITR at 10.24% and 10.22% in FY15/15, followed by Bharat Electronics and Infos. Technologies (18.94%) among the top 100 companies. On the other hand, Maruti Suzuki India Ltd (50%), Coal India (34.2%), Kotak Mahindra Bank (34.2%) and WIPAC (34.2%) have the highest tax rates.

• Companies with huge deferred tax liabilities are beneficiaries with falling corporate tax rates and vice versa. The proposed reduction in corporate tax rate will also have an impact on companies' deferred tax calculations, thus affecting profitability.

• Companies with high deferred tax liabilities (DTL) on their balance sheet will be impacted negatively and vice versa. However, this is expected to not have any impact on a company's cash flow. Our analysis suggests that IndiaStar and UltraTech Cement will see profitability increasing by 4.4% and 1.4% respectively. However, on the other hand, balance sheet, EBITDA and EBIT will see profitability decreasing by 10% and 50% in FY16 due to the deferred tax assets (DTA) on their balance sheet.

• Companies with huge MAT credit entitlement might be negatively impacted. The reduction in corporate tax rate will also impact companies bearing a huge amount of minimum alternate tax (MAT credit) on their balance sheet. With corporate tax rates reducing, a lesser credit will be available to adjust against the existing MAT credit.

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Effective tax rates by industry have been ranged from 10% to 34.2% over the past decade

Effective tax rate (%)

Industry	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
IT	18.4	22.2	21.5	24.1	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8
Pharma	18.4	22.2	21.5	24.1	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8
Auto	18.4	22.2	21.5	24.1	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8
Banking	18.4	22.2	21.5	24.1	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8
Others	18.4	22.2	21.5	24.1	22.8	22.8	22.8	22.8	22.8	22.8	22.8	22.8

Which company pays a higher effective tax rate than the public companies

Company	Effective tax rate (%)	Public companies (%)	Non-public companies (%)
Gamma India	10.24	10.24	10.24
Tata Plastics	10.22	10.22	10.22
Bharat Electronics	18.94	18.94	18.94
Infosys Technologies	22.26	22.26	22.26
Maruti Suzuki India Ltd	34.2	34.2	34.2
Kotak Mahindra Bank	34.2	34.2	34.2
WIPAC	34.2	34.2	34.2

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