

UPL (UPLL) - REDUCE

Company Update

Current Market Price (CMP) Rs.626	Fair Value (FV) Rs.630
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Rationale:

- UPL last week filed the valuation reports underlying the proposed reorganization of its crop protection business.
- This note discusses valuation methodology used to arrive at the proposed share swap ratios and the assumptions underlying the DCF valuation—which seem optimistic.
- Anyhow, the main concern remains the likely emergence of holding company discounts after the completion of the proposed reorganization.
- The valuation exercise was conducted by E&Y and PWC.
- Valuation methodology unchanged for now, use a DCF that implies a FV of Rs630 (8X Dec-2027E EV/EBITDA).
- We upgrade rating to REDUCE (from SELL) post the recent correction in stock price.

👍 Positives:

- DCF valuations presume a sharp expansion in margins and robust revenue growth.
- EBITDA margins are projected to expand from 17.4% in FY25 to 24% by FY30.
- For UPL SAS, FY26E EBITDA margin of 15.2% is assumed to improve to 22% by FY30.

👎 Negatives:

- 50% weight assigned to UPL's market price leads to a somewhat inferior swap ratio for UPL's shareholders.
- Difficulty in predicting holding co discounts that will be attached to UPL Global SAS and Advanta post listing could prove a key hurdle in arriving at a fair valuation for UPL.

(EV – Enterprise Value; EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization; DCF – Discounted Cash Flow; PwC – PricewaterhouseCoopers; EY – Ernst & Young.)



The content of this document has been derived from KIE research report. Kotak's PCG Research has summarized the report (Research Team: shrikant.chouhan@kotak.com). Readers who wish to access the complete report are kindly requested to contact their respective Relationship Manager. Further, the recipient of this material should take their own professional advice before investing.

Holding Period: 12 months

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Definitions of ratings

- BUY** – We expect the stock to deliver more than 15% returns over the next 12 months
- ADD** – We expect the stock to deliver 5% - 15% returns over the next 12 months
- REDUCE** – We expect the stock to deliver -5% - +5% returns over the next 12 months
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- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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