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10th June 2024

BSE Limited
Mumbai

National Stock Exchange of India Ltd
Mumbai

SCRIP CODE: 512070

SYMBOL: UPL

Sub: Intimation of revision in credit rating by Fitch for UPL Corporation Limited

Pursuant to Regulation 30(6), read with Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby inform you that Fitch Ratings (Fitch) on 06th June 2024 has informed revision in credit rating of UPL Corporation Limited, wholly owned subsidiary of UPL Limited.

Fitch has downgraded UPL Corporation Limited's Long-Term Issuer Default Rating (IDR) to 'BB', from 'BB+'. The Outlook is Negative. Fitch has also downgraded UPL Corp's senior unsecured rating and the ratings on the senior unsecured notes to 'BB', from 'BB+'. The senior unsecured notes have a Recovery Rating of 'RR4'.

The attached report by Fitch covers detailed rating rationale for revision in rating. The rating pertains to subsidiary and has been communicated under Regulation 30(6) voluntarily as a good governance.

We request you to take the above on record.

Thanking you,

Yours faithfully,
For **UPL Limited**

Sandeep Deshmukh
Company Secretary and
Compliance Officer
(ACS-10946)

Encl: As above

RATING REPORT

UPL Corporation Limited

Thu 06 Jun, 2024 - 12:11 AM ET

Fitch Ratings' downgrade of UPL Corporation Limited's (UPL Corp) Long-Term Issuer Default Rating (IDR) to 'BB', from 'BB+', followed a fall in EBITDA in the financial year ended March 2024 (FY24) and sharply higher EBITDA leverage, both of which were worse than what Fitch had expected. The EBITDA of UPL Corp's parent, UPL Limited (UPL), with whose credit profile UPL Corp's rating is aligned under our Parent and Subsidiary Linkage Rating Criteria, fell by more than 50% after incorporating Fitch's adjustments. Weaker EBITDA and higher finance costs resulted in negative free cash flow (FCF) and a surge in UPL's leverage. Total debt-to-EBITDA leverage, based on deduction of net dividends to minorities from EBITDA, jumped to 8.9x in FY24, from 3.6x in FY23. We expect leverage to improve, but persistent oversupply from China could delay UPL's deleveraging and sustain pressure on its financial profile. This is reflected in the Negative Outlook. The ratings incorporate the group's robust market position in the post-patent segment of crop-protection chemicals, and its robust product and geographical diversification. We see UPL's significant backward integration as a key competitive advantage, but this may shrink in the face of sustained manufacturing overcapacity in the industry.

23 MAY 2024

Fitch Downgrades UPL Corp to 'BB'; Outlook Negative

Fitch Ratings - Singapore - 23 May 2024: Fitch Ratings has downgraded UPL Corporation Limited's (UPL Corp) Long-Term Issuer Default Rating (IDR) to 'BB', from 'BB+'. The Outlook is Negative. Fitch has also downgraded UPL Corp's senior unsecured rating and the ratings on the senior unsecured notes to 'BB', from 'BB+'. The senior unsecured notes have a Recovery Rating of 'RR4'.

The downgrade follows a fall in EBITDA in the financial year ended March 2024 (FY24) and sharply higher EBITDA leverage, both of which were worse than what Fitch expected. The EBITDA of UPL Corp's parent, UPL Limited (UPL), with whose credit profile UPL Corp's rating is aligned under our Parent and Subsidiary Linkage Rating Criteria, fell by more than 50% after incorporating Fitch's adjustments.

Weaker EBITDA and higher finance costs resulted in negative free cash flow (FCF) and a surge in UPL's leverage. Total debt-to-EBITDA leverage, based on deduction of net dividends to minorities from EBITDA, jumped to 8.9x in FY24, from 3.6x in FY23. While we expect leverage to improve, persistent oversupply from China could delay UPL's deleveraging and sustain pressure on its financial profile. This is reflected in the Negative Outlook.

The ratings incorporate the group's robust market position in the post-patent segment of crop-protection chemicals and its robust product and geographical diversification. We see UPL's significant backward integration as a key competitive advantage, but this may shrink in the face of sustained manufacturing overcapacity in the industry.

Key Rating Drivers

FY24 Performance Hit by Industry Dynamics: UPL's FY24 Fitch-adjusted EBITDA fell by 57%, on a 20% drop in revenue and 9pp margin shrinkage. Significant channel destocking, due to ample supplies and higher inventory-carrying costs, affected demand for the industry. UPL's EBITDA, which has historically benefitted significantly from vertical integration due to a large production capacity, has also been hit by manufacturing overcapacity in China. The chemical capacity build-up in China in the last few years has resulted in a surge in global product supply.

Recovery Likely, but Strength Uncertain: We think demand should rebound from FY25, based on robust long-term drivers for agricultural output growth globally. UPL expects channel destocking to subside by 1HFY25. However, the prospects for capacity in China are more uncertain. We forecast UPL's EBITDA margin to rise to 16% by FY26 (FY24: 10%), partly driven by supply rationalisation in China in response to weak profitability. However, the glut could persist for several years and constrain UPL's EBITDA margin improvement.

Vertical Integration Benefit May Diminish: Production overcapacity in China has hit UPL's consolidated EBITDA margin more than peers with weaker vertical integration. UPL manufactures a large share - over 70% in FY23 - of its active ingredient requirements. However, it curtailed manufacturing and increased purchases from China-based suppliers in FY24, which resulted in a fall in its production capacity utilisation. Overcapacity in China, if sustained, may cause external active ingredient purchases to increase further, weakening the group's benefits from vertical integration.

Financial Metrics Likely to Improve: We forecast leverage to fall to around 5x by FY26, on a 6pp EBITDA margin recovery and an 8% revenue CAGR over FY25-FY26. UPL's FY24 EBITDA was hit by higher channel rebates and high-cost inventory liquidation. We assume this will diminish from 2QFY25, based on our expectation of a better demand-supply balance for the industry. Margin and revenue growth should also be supported by UPL's aim to increase the share of higher-margin products, which UPL deems as differentiated and sustainable, to 50% of revenue by FY27 (FY24: 36%).

UPL's working-capital cycle should shorten in FY25 due to management's focus on better planning, collections and inventory management. We estimate UPL's free cash flow margin will be largely neutral over FY25-FY26. We also forecast EBITDA interest coverage to increase to around 3x by FY26, from below 1.5x in FY24.

Equity Inflows May Support Deleveraging: UPL plans to launch a rights issue of up to USD500 million. UPL raised around USD250 million of net proceeds from the sale of minority stakes in its global seeds and India crop-protection businesses in FY23. UPL is exploring options to raise more capital from minority stake sales in various subsidiaries, which should help deleveraging. Still, the size and timing of inflows are uncertain and we do not assume equity inflows. Proceeds from the rights issue and the sale of minority stakes should enable UPL to deleverage faster than our forecast.

Post-Patent Market Leadership: UPL is the largest company in the post-patent crop-protection market segment based on 2023 revenue, with a well-diversified product portfolio. The acquisition of Arysta LifeScience Inc. in FY19 added to UPL's strength as a low-cost producer for grain crops and large-scale applications, with Arysta's expertise in formulation R&D and focus on specialty crops and use. UPL is also geographically diversified, with an established presence in the developed markets of North America and Europe, in addition to Latin America, India and several others.

Rating Aligned with Parent: UPL Corp has a weaker credit profile than parent UPL. Still, we assess UPL's strategic and operational incentives to support UPL Corp as high. This is based on factors such as UPL's reliance on UPL Corp for overseas crop-protection product sales and our expectation that UPL Corp will contribute the majority of UPL's consolidated EBITDA over the next three years. Decision-making is integrated, as UPL's CEO is a member of UPL Corp's board and oversees group strategy and operations. The parent also manages long-term fundraising operations.

Derivation Summary

UPL Corp is rated at the same level as post-patent segment peer Nufarm Limited (BB/Stable), based on our assessment of a stronger business profile but weaker financial metrics. Australia-based Nufarm has limited vertical integration and purchases a majority of its raw material from manufacturers in

China. Herbicides contribute around two-thirds of Nufarm's revenue, while UPL's product portfolio is more balanced. Nufarm's geographical diversification is limited by a lack of presence in Latin America.

Consequently, UPL's EBITDA scale and margin are also better than Nufarm's. However, UPL's estimated leverage in FY24 and FY25 is significantly higher than our expectations for Nufarm for its financial year ending September 2024. Our estimates for UPL's interest coverage are also weaker.

Industry peer Syngenta AG (BBB+/Stable) has a Standalone Credit Profile (SCP) of 'bbb-'. Syngenta's IDR incorporates a two-notch uplift based on its linkage with its indirect parents, China National Chemical Corporation Limited (A/Negative) and, ultimately, Sinochem Holdings Corporation Ltd. Switzerland-based Syngenta is the global leader in the crop-protection chemical market by sales and an innovator, with a large portfolio of patented crop-protection chemicals. Its 2023 EBITDA was more than 2x that of UPL's in FY23. These factors drive Syngenta's better SCP than UPL Corp's rating.

Another peer, US-based FMC Corporation (BBB-/Stable), is quite similar to UPL in terms of 2023 revenue scale, and also has a high degree of product and geographical diversification. However, FMC benefits from a significant share of revenue from patented products, which has softened the impact of weak industry conditions on its EBITDA. FMC's 2023 EBITDA was around 30% lower, while UPL's EBITDA fell by more than 50% in FY24. FMC's EBITDA margin in 2023 was also twice that of UPL's in FY24, while the US company's leverage and coverage metrics are better. These factors justify FMC's higher rating.

Key Assumptions

Fitch's Key Assumptions Within the Rating Case for UPL:

- Revenue growth of 7% in FY25 and 8% in FY26;
- EBITDA margin, after incorporating Fitch's adjustments, to improve to 16% in FY26, from 10% in FY24;
- Average annual capex, excluding capitalised R&D costs, of INR20 billion over FY25-FY26;
- Net days for Fitch-defined working capital to decline by 10 in FY25, and remain flat in FY26;
- Average annual outflow for acquisitions of around USD50 million over FY25-FY26;
- Average annual dividend paid to shareholders of UPL of INR1 billion during FY25-FY26;
- Average annual dividend paid to minorities of INR2 billion during FY25-FY26.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- EBITDA leverage, based on deduction of net dividends to minorities from EBITDA, not on track to be below 4.5x by FY26;
- EBITDA interest coverage, based on deduction of net dividends to minorities from EBITDA, not on

track to be close to 3.0x by FY26;

- EBITDA margin (Fitch-adjusted) is sustained below 15%, which would indicate a lower benefit from vertical integration;
- A delay in equity inflows from the proposed rights issue and sale of minority stakes in subsidiaries.
- Sustained negative free cash flow margin.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Fitch may revise the Outlook to Stable if performance is better than the sensitivities for negative rating action.

Liquidity and Debt Structure

Manageable Liquidity: UPL's borrowings, excluding factored receivables, which we include under debt, were almost entirely unsecured as of FYE24. Its next major debt maturity, following the repayment of USD200 million for a sustainability-linked term loan in January 2024, is USD250 million for a term loan in September 2025. Thereafter, it has USD500 million due in March 2026.

UPL's short-term debt facilities, including those for factoring of receivables, are likely to be rolled over, based on our view that the group's business performance will improve in FY25. UPL's readily available cash stood at over INR50 billion at end-March 2024, after assuming a small portion to be restricted on account of working capital seasonality, and the group had undrawn short-term bank facilities of around INR150 billion (FYE23: INR190 billion). It also plans to raise significant equity capital. These factors support our view that UPL should be able to address its long-term debt maturities in the next two years.

Issuer Profile

UPL is among the five largest crop-protection chemical-focused companies globally in terms of 2023 revenues, with a portfolio dominated by products whose patents have expired. It is listed in India. UPL's Mauritius-based subsidiary, UPL Corp, provides access to overseas crop-protection chemical markets. UPL's operations also include chemical manufacturing and sale of crop-protection products in India and of seeds globally.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

UPL Corp's ratings are linked to the credit strength of its parent, UPL. Fitch deems UPL Corp to have a weaker credit profile than the parent, whose profile is assessed based on its consolidated profile after adjusting for minority interests. We assess the parent's strategic and operational incentives to provide support to the subsidiary as high.

ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR	
UPL	LT IDR	BB ●	Downgrade	BB+ ●

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Corporation Limited			
• senior unsecured ^{LT}	BB	Downgrade	BB+
• senior unsecured ^{LT}	BB	Downgrade	RR4 BB+

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	◐	

Applicable Criteria

[Corporate Hybrids Treatment and Notching Criteria \(pub.12 Nov 2020\)](#)

[Corporate Rating Criteria \(pub.03 Nov 2023\) \(including rating assumption sensitivity\)](#)

[Corporates Recovery Ratings and Instrument Ratings Criteria \(pub.13 Oct 2023\) \(including rating assumption sensitivity\)](#)

[Parent and Subsidiary Linkage Rating Criteria \(pub.16 Jun 2023\)](#)

[Sector Navigators – Addendum to the Corporate Rating Criteria \(pub.03 Nov 2023\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

UPL Corporation Limited EU Endorsed, UK Endorsed

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The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Fitch also provides information on best-case rating upgrade scenarios and worst-case rating downgrade scenarios (defined as the 99th percentile of rating transitions, measured in each direction) for international credit ratings, based on historical performance. A simple average across asset classes presents best-case upgrades of 4 notches and worst-case downgrades of 8 notches at the 99th percentile. For more details on sector-specific best- and worst-case scenario credit ratings, please see [Best- and Worst-Case Measures](#) under the Rating Performance page on Fitch's website.

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