



UPL Limited, UPL House
610 B/2, Bandra Village
Off Western Express Highway
Bandra (East), Mumbai 400 051, India

w: upl-ltd.com
e: contact@upl-ltd.com
t: +91 22 7152 8000

08th February 2024

BSE Limited
Mumbai

National Stock Exchange of India Ltd
Mumbai

SCRIP CODE: 512070

SYMBOL: UPL

Sub: Intimation of revision in credit rating by S&P 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 S&P Global Ratings ("S&P") vide its publication dated 07th February 2024 has communicated revision in the credit rating of UPL Corporation Limited, wholly owned subsidiary of UPL Limited, as under:

Type of Ratings	Previous Rating	Revised Rating
Issuer Credit Rating	BB+	BB
Senior Unsecured Notes	BB+	BB
Subordinated Securities	BB-	B+

S&P has revised their rating outlook from 'Stable' to 'Negative'.

The attached communication by S&P covers detailed rating rationale for downgrade.

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

Research Update:

UPL Corp. Downgraded To 'BB' On Weak Cash Flow And Poor Operating Environment; Outlook Negative

February 7, 2024

Rating Action Overview

- We expect UPL Corp. Ltd.'s leverage and cash flow to deteriorate amid poor industry conditions, with limited prospects for a full earnings recovery over the next 12 months.
- UPL Corp.'s liquidity position has weakened, with a jump in short-term debt and higher funding costs. The India-listed agrochemical producer faces lengthy working capital cycles typical for the sector, and its initiatives--including a rights offering--provide only partial relief.
- On Feb. 7, 2024, S&P Global Ratings lowered its long-term issuer credit rating on UPL Corp. to 'BB' from 'BB+.' We also lowered our issue rating on the company's senior unsecured notes to 'BB' from 'BB+' and subordinated perpetual securities to 'B+' from 'BB-'.
- The negative rating outlook reflects risk that the company's earnings recovery may be prolonged and cash flow fail to recover rapidly over the next 12 months.

PRIMARY CREDIT ANALYST

Shawn Park
Singapore
+ 65 6216 1047
shawn.park
@spglobal.com

SECONDARY CONTACT

Neel Gopalakrishnan
Singapore
+ 65-6239-6385
neel.gopalakrishnan
@spglobal.com

Rating Action Rationale

We expect UPL Corp.'s weakened operations and increased debt levels to aggravate its credit quality. Agrichemical industry fundamentals sharply deteriorated in recent quarters, and industry-wide destocking and price declines have negatively affected major players, including UPL Corp.. That is particularly the case in Latin America, which typically accounts for about 40% of the company's sales. We believe normalization of operations will take time. Destocking will likely continue through the first half of fiscal 2025 (year end March 31), while high production from competitors will continue to pressure prices. We expect a gradual recovery in the industry. However, we also expect UPL Corp.'s use of rebates to attract sales during the recovery will reduce profitability.

We forecast UPL Corp.'s EBITDA in fiscal 2024 (ending March 31) will decline by 60% to Indian rupee (INR) 46 billion, and its EBITDA margin will contract to about 11% from fiscal 2023's 21.2%. We expect a notable recovery in fiscal 2025 EBITDA and EBITDA margin to INR70 billion and 14%, respectively. Nonetheless, these levels are not at commensurate with a 'BB+' rating, which was based on an expectation of a gradual deleveraging. Based on our revised forecast, we expect UPL

Corp.'s funds from operations (FFO) to debt to drop sharply to 1.5% in fiscal 2024 from 23.4% a year prior, and recover to around 12% by fiscal 2025.

Elevated working capital with the absence of long-term committed credit lines is an ongoing risk for liquidity. Due to soft markets for its agrochemicals, UPL Corp.'s short-term debt ballooned to INR119 billion during the second quarter of fiscal 2024. It stood at INR28.6 billion at the end of fiscal 2023. UPL Corp. has previously securitized receivables to free up some working capital at the fiscal year-end, alleviating short-term liquidity pressures. Given the state of agrichemical markets, we believe the company's securitization program may free up lower amounts of working capital than in the past. Furthermore, its working capital is funded by short-term (less than one year) credit lines.

While the company maintains good banking relationships and we expect it to roll over its facilities, we believe this weakens its liquidity in an environment of still elevated funding costs and a weakening credit quality. Furthermore, we believe, because of lower earnings, the company has a limited cushion when complying with its loan covenants. As a result, we have revised our assessment of UPL Corp.'s liquidity to less than adequate, from adequate.

UPL Corp. has measures in place to support its operations and liquidity. UPL Corp.'s parent, UPL Ltd., has announced a rights issuance of up to US\$500 million to be executed before the fiscal 2024 year-end. UPL Corp. is also exploring options to raise additional capital by monetizing its business assets. These measures, while alleviating liquidity stress to some extent, are not adequate to offset the impact of the weakened business cycle.

Furthermore, UPL Corp. has around US\$2.5 billion in short term credit lines from multiple banks. They are uncommitted, repayable in less than six months, and have been used for working capital. As of December 2023, the company had unused credit lines of about US\$1.1 billion.

Outlook

The negative outlook on UPL Corp. reflects the potential that the current industry downturn is prolonged beyond the first quarter of fiscal 2025, with the company's operating cash flow failing to recover rapidly over the next 12 months. The outlook also reflects the uncertain outcome of the company's initiatives to deleverage through equity infusion and better working capital management.

Downside scenario

We may lower the rating on UPL Corp. if weak operating conditions, low margins and stretched financial metrics continue. This would be the case if we do not have visibility over the next year that UPL Corp.'s FFO-to-debt ratio will recover towards 20% sustainably. We may also downgrade UPL Corp. if its efforts to deleverage are derailed, potentially due to debt-funded acquisitions or shareholder-friendly returns.

Upside scenario

We could revise the outlook back to stable if UPL Corp.'s earnings and cash flow generation strongly recover in line with our expectation of a turnaround in global agrichemical market conditions, and the company deleverages, such that its FFO-to-debt ratio trends towards 20%.

Company Description

UPL Corp. is a 78% subsidiary of India-listed UPL Ltd., the world's fifth-largest agriculture solutions player. UPL Corp.'s offering covers the entire agricultural value chain, including seeds, seed treatment, crop protection, storage of agricultural products, as well as post-harvest solutions. The company had revenue of about INR535 billion and adjusted EBITDA of INR113 billion in fiscal 2023.

Our Base-Case Scenario

Assumptions

- India's GDP growth for fiscals 2024 and 2025 to be 6.4% and 6.9% respectively, from 6.4% in fiscal 2023.
- Brazil's 2023 and 2024 GDP to rise 1.5% and 1.9%, respectively, from 2.9% in 2023.
- We expect the global agrichemical industry to start to recover in fiscal 2025, following the industry-wide inventory destocking and price declines of fiscal 2024.
- UPL Corp.'s revenue in fiscal 2024 to decline 19% as we expect contractions across all regions, including Latin America, the U.S., and Europe. We then expect 8% revenue growth in fiscal 2025 as a gradual recovery takes shape from the second half of fiscal 2025.
- Adjusted EBITDA margin for fiscal 2024 to sharply decline to around 11% from 21.2% in fiscal 2023, and gradually improve to around 14% in fiscal 2025 as operations start to normalize.
- Annual capital expenditure (capex) to be INR20 billion–INR22 billion for fiscals 2024 and 2025.
- Annual dividends to be INR5.5 billion–INR6.5 billion for fiscals 2024 and 2025.

Key metrics

Based on these assumptions, we expect UPL Corp.'s FFO-to-debt ratio to be 1.5% in fiscal 2024 and about 12% in fiscal 2025, which compares with 23.4% in fiscal 2023.

Of note, we base our credit assessment of UPL Corp. on the consolidated view of UPL Ltd.'s credit profile, because we consider UPL Ltd. to be the ultimate parent.

Liquidity

We assess UPL Corp.'s liquidity as less than adequate, given the company's sources of liquidity are unlikely to cover uses by more than 1.2x over the 12 months ending September 30, 2024.

Although UPL Corp.'s long-standing relationship with banks and high standing in credit markets are reflected in its domestic and global bond issuances over the past several years, we question its ability to absorb high-impact and low-probability events without having to refinance. The pronounced downward pressure on its earnings from the agrichemical downturn illustrates this point.

Furthermore, due to weakened earnings, we do not see sufficient headroom in its financial

covenant. Mitigating this is limited near-term maturity, with the next maturity on September 2025 for a US\$250 million term loan.

Principal liquidity sources include:

- Cash and cash equivalents of about INR31.0 billion as of Sept. 30, 2023.
- Operating cash flow of about INR53 billion over the next 12 months, ending Sept. 30, 2024.
- Proceeds from the US\$200 million term loan raised in October 2023.
- Expected proceeds of about INR30 billion in rights issuance announced in December 2023.

Principal liquidity uses include:

- Short-term debt maturities of INR119 billion over the 12-month period ending Sept. 30, 2024
- Maintenance capex of about INR8 billion over the 12-month period ending Sept. 30, 2024.
- Dividends of around INR6 billion during the same period.

Issue Ratings - Subordination Risk Analysis

Capital structure

As of March 31, 2023, UPL Corp. had INR230 billion in debt on its consolidated balance sheet, of which INR1 billion was secured and the remaining was unsecured. Of the INR230 billion, INR6 billion debt is under UPL Corp. alone, while the rest is under UPL Corp. and key subsidiaries.

Analytical conclusions

We equalize the rating on the U.S. dollar-denominated senior unsecured notes issued by UPL Corp. with the 'BB' issuer credit rating on the company. This is because the majority of the company's assets are in India, a jurisdiction where we believe the priority of claims in a bankruptcy scenario is highly uncertain. However, we believe bondholders are subject to limited subordination, given the small proportion of secured debt.

We rate the perpetual securities two notches below the issuer credit rating. This is to reflect the contractual subordination and the option to defer payments on the bond.

Ratings Score Snapshot

Issuer Credit Rating	BB/Negative/--
Business risk:	Satisfactory
Country risk	Intermediate
Industry risk	Moderately High
Competitive position	Satisfactory
Financial risk:	Aggressive
Cash flow/leverage	Aggressive
Anchor	bb

Issuer Credit Rating	BB/Negative/--
Modifiers:	
Diversification/Portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Less Than Adequate (-1 notch)
Management and governance	Moderately Negative (no impact)
Comparable rating analysis	Positive (+1 notch)
Stand-alone credit profile:	bb

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | Recovery: Methodology: Jurisdiction Ranking Assessments, Jan. 20, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Downgraded

	To	From
UPL Corp. Ltd.		
Issuer Credit Rating	BB/Negative/--	BB+/Stable/--
Senior Unsecured	BB	BB+
Subordinated	B+	BB-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.