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8th August 2024

BSE Limited
Mumbai

National Stock Exchange of India Ltd
Mumbai

SCRIP CODE: 512070

SYMBOL: UPL

Sub: Intimation of revision in credit rating by Moody's 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 Moody's Ratings (Moody's) on 07th August 2024 has informed revision in credit rating of UPL Corporation Limited (UPL Corp), wholly owned subsidiary of UPL Limited.

Moody's has downgraded UPL Corp's Corporate Family Rating (CFR) and senior unsecured debt rating to Ba2 from Ba1. Moody's also downgraded the rating on UPL Corp's \$400 million undated perpetual junior subordinated eurobonds to B1 from Ba3.

Rating Rationale published by Moody's is enclosed herewith as Annexure.

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

MOODY'S

RATINGS

Rating Action: Moody's Ratings downgrades UPL to Ba2, places ratings under review for further downgrade

07 Aug 2024

Singapore, August 07, 2024 -- Moody's Ratings (Moody's) has downgraded UPL Corporation Limited's (UPL Corp) corporate family rating (CFR) and senior unsecured debt rating to Ba2 from Ba1. We also downgraded the rating on UPL Corp's \$400 million undated perpetual junior subordinated eurobonds to B1 from Ba3.

Concurrently, we placed all ratings under review for further downgrade. Previously, the outlook was negative.

"The rating downgrade to Ba2 is driven by UPL's weak credit profile with financial metrics that will remain outside our tolerance for its previous Ba1 CFR over the next 12-18 months," says Kaustubh Chaubal, a Moody's Ratings Senior Vice President.

"The review for downgrade reflects UPL's weak liquidity, continued reliance on uncommitted short-term financing and rising refinancing risks associated with the company's upcoming term loan maturities in the fiscal year ending March 2026 (FY25-26) amid a still challenging operating environment," adds Chaubal who is also Moody's Ratings lead analyst for UPL.

Today's rating action considers the impact of the company's governance practices -- in particular, aggressive financial policies, weak liquidity and the company's underperformance with respect to its publicly articulated targets -- on its credit profile, which we view as credit negative.

RATINGS RATIONALE

UPL Group (UPL) comprises the ultimate holding company, UPL Ltd, and its various Indian and overseas operating subsidiaries, including UPL Corp. Given the significant overlap among the group's Indian and overseas operations, as well as the common treasury function under the parent entity UPL Ltd, our ratings for UPL Corp continue to reflect the credit quality of UPL Group as a whole.

Today's rating action follows UPL's still-weak operating results for the first quarter of FY24-25. Continued pricing pressure almost entirely offset the volume increase, resulting in flat year-over-year revenues and a 28% decline in EBITDA. As a result, its debt/last 12 months EBITDA leverage remained in the high-single-digits as of June 2024.

Channel inventories across various markets have somewhat stabilized, but a global oversupply of agrochemicals will constrain product price increases. In addition, a shift in buying patterns with distributors restocking closer to planting seasons will moderate sales growth for the agrochemicals industry. Our forecasts for UPL in FY24-25 and FY25-26 assume its revenue growing 3%-4% and its EBITDA margin gradually improving towards 17%. UPL's strategy of backward integration that includes producing key raw materials in-house, coupled with its low operational break-even point, is likely to enhance its profitability as the industry rebounds.

Still, UPL's operations are subject to changing weather patterns that cause wide swings in cash flow, requiring large working capital investments during the first three fiscal quarters through December, with most of the working capital release only during the last fiscal quarter. These large swings often strain its liquidity and cause sharp fluctuations in its debt. As a result, its debt/EBITDA leverage through the year will remain at around 6.0x. Resumption of capital expenditure and investments in product registration will keep free cash flow negative during FY24-25, before modestly recovering in FY25-26, with limited room for gross debt reduction.

UPL's cost of debt has increased amid stretched market liquidity, high interest rates and the weakening in its credit profile. This, coupled with the EBITDA decline has resulted in the company's EBITDA/interest coverage dropping sharply in FY23-24 from 4.1x in the previous fiscal year. The company's interest coverage will remain low at around 2.0x over the next 12-18 months, substantially weak for its Ba rating category.

Further exacerbating UPL's weak liquidity are its debt maturities in FY25-26 that comprise term loan repayments of \$250 million in September 2025 and \$500 million in March 2026. The company plans to address a part of these through its planned rights issuance of up to \$500 million, which is delayed to December 2024/March 2025. UPL's unsecured capital structure presents it options to raise debt, but the absence of a firm refinancing plan, indicates an aggressive financial policy for its current rating, and remains our key concern.

We expect to conclude the review within 60-90 days. The review will focus on UPL's: (1) progress on refinancing plans; (2) deployment of creditor-friendly financial policies that shore up liquidity; and (3) progress if any, on obtaining committed working capital facilities.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

We could confirm UPL's ratings at Ba2 if the company successfully addresses its long term debt repayments in a timely manner, at least 12 months ahead of scheduled maturities. UPL's ratings will likely face a multi-notch downgrade unless the company addresses its liquidity and refinancing requirements.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

UPL's Credit Impact Score (CIS) is changed to CIS-4 from CIS-3, indicating our view that the company's ratings are lower than they would have been if ESG risk exposures, in particular the company's weak governance, did not exist.

We revised UPL's governance issuer profile score (G-IPS) to G-4 from G-3, reflecting weaker management credibility and track record given the company's underperformance with respect to its publicly articulated targets, persistently weak liquidity and highly leveraged balance sheet.

LIQUIDITY

We assess UPL's liquidity as weak. Cash and cash equivalents of \$497 million as of June 2024 and estimated cash flow from operations aggregating \$1.1 billion over the 21 months until March 2026 will be substantially inadequate to cover UPL's \$2.2 billion financial obligations over the same period. These obligations comprise scheduled debt repayments (including short-term debt), capital expenditure and dividends.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Chemicals published in October 2023 and available at <https://ratings.moody's.com/rmc-documents/410490>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody's.com> for a copy of this methodology.

CORPORATE PROFILE

UPL Corp is a wholly-owned subsidiary of UPL Limited, a leading global agrochemical company that operates in the post-patent space. UPL Limited generated revenues of INR432 billion (\$5.2 billion) and an estimated EBITDA of INR36 billion (\$437 million) during the twelve months ended June 2024.

Listed on India's National Stock Exchange and the Bombay Stock Exchange, UPL Limited was 32.52% (as of 30 June 2024) owned by its promoter family, led by Jaidev Shroff, chairman and group CEO.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1355824.

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