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7 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 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 Investors Service (Moody's) vide its publication dated 6 February, 2024 has communicated revision in the credit rating of UPL Corporation Limited, wholly owned subsidiary of UPL Limited, as under:

Type of Rating	Previous Rating	Revised Rating
Senior Unsecured Rating	Baa3	Ba1
Long term Junior Subordinated Rating	Ba2	Ba3
Corporate Family Rating (CFR)	Baa3	Ba1

Moody's has maintained the 'negative' rating outlook.

The attached communication by Moody's covers detailed rating rationale for downgrade.

We request you to take the above on record.

Thanking you,

Yours faithfully,
For **UPL Limited**

SANDEEP MOHAN DESHMUKH
Digitally signed by SANDEEP MOHAN DESHMUKH
Date: 2024.02.07 18:05:24 +05'30'

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

Encl: As above

MOODY'S

Rating Action: Moody's downgrades UPL to Ba1; outlook remains negative

06 Feb 2024

Singapore, February 06, 2024 – Moody's Investors Service (Moody's) has downgraded to Ba1 from Baa3 the senior unsecured rating for UPL Corporation Limited (UPL Corp). Moody's has also downgraded to Ba3 from Ba2 the rating on the long-term junior subordinated rating on UPL Corp's $400 million undated perpetual Eurobonds.

At the same time, Moody's has assigned a Ba1 corporate family rating (CFR) to UPL Corp and withdrawn the company's Baa3 issuer rating.

Moody's has also maintained the negative rating outlook.

"The downgrade to Ba1 is driven by a protracted deterioration in the agrochemical industry fundamentals that will kee UPL's credit metrics weaker than our expectation for an investment-grade rating," says Kaustubh Chaubal, a Moody's Senior Vice President.

Moody's rating action follows UPL's weak operating results for the third quarter (Q3) of the fiscal year ending March 2024 (fiscal 2024). During Q3 fiscal 2024, the company's revenue and EBITDA fell 28% and 86% respectively, compared to the same period last year, causing its Moody's adjusted gross debt/last twelve month (LTM) EBITDA leverage to spike to around 7.0x, from 4.8x as of September 2023 and 3.4x as of March 2023.

"UPL entered the current industry down cycle with substantial leverage. This, combined with UPL's working-capital intensive business model and its weak liquidity have exacerbated the impact of the tight funding conditions on its credit profile," adds Chaubal who is also Moody's lead analyst for UPL.

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, Moody's ratings for UPL Corp continue to reflect the credit quality of UPL Group as a whole.

Moody's previously expected the pace of channel destocking, rebates and price declines to abate by December 2023 However, it now appears that the global agrochemical industry's woes will likely linger into the next fiscal year. The rating agency's revised forecasts assume that UPL's fiscal 2024 revenues will drop by a quarter and then by another mid-single digit percentage in the following fiscal year. As Moody's projects UPL's EBITDA margin will remain at 10%-15% over fiscal years 2024 and 2025, the company's working capital-intensive operations will likely keep debt elevated, resulting in its Moody's-adjusted debt/EBITDA to be close to double digits and its EBITDA just about matching its inflated interest cost. These projected metrics are significantly outside the rating agency's thresholds for a Ba1 rating.

Furthermore, UPL's heavy reliance on short-term financing remains a key credit concern. The company's current liabilities account for almost 60% of its total liabilities. Since dues to its suppliers make up a large portion of its current liabilities, their continued support remains key to the company managing its working capital well. A slowdown in the company's manufacturing due to industry challenges, as well as its inherently working capital-intensive operations, led to a large cash outflow thus far during fiscal 2024. Ongoing high interest rates and scarce market liquidity and credit availability could prompt suppliers to tighten credit norms, exerting pressure on the company's working capital and liquidity, which could further worsen its debt/EBITDA leverage.

In December 2023, UPL announced that its board of directors approved a rights issuance of up to $500 million. Underwritten by the promoter family, the rights issue will stave off immediate liquidity pressure for the company; albeit only marginally because of the large funding gap given the company's insufficient cash flow generation with the earnings decline and the business' inherent working capital intensity.

UPL's Ba1 CFR reflects the company's substantial scale, leading global position in post-patent agrochemicals, and its geographically diversified, vertically integrated operations that produce key raw materials and a product slate that caters to the entire agricultural food value chain. Despite its diverse offerings that include seeds and agrochemicals used in crop cultivation, protection and preservation, like its peers, the company remains exposed to varying weather patterns that affect agrarian economies, as well as the long gestation period spanning farm-land preparation, sowing, cultivation to harvesting, which results in elongated working capital cycles.

The company's weaker earnings and the resultant strain on its credit profile are consistent with its rated agrochemical peers. Moody's will continue to closely monitor the competitive environment and UPL's ability to navigate industry challenges while preserving its credit quality and improving its liquidity – factors that are critical to supporting the company's Ba1 rating.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS

Moody's has changed the subfactor score on UPL's governance, on 'financial strategy and risk management' to 3 from 2 – to reflect the company's elevated leverage and weak liquidity. The company's governance issuer profile score (G-IPS) is unchanged at G-3. The Credit Impact Score also remains unchanged at CIS-3 indicating Moody's view that ESG considerations have an overall limited impact on UPL's Ba1 CFR, but may have greater potential for a negative impact over time.

RATINGS OUTLOOK

The negative outlook reflects the significant deterioration in UPL's earnings and cash flow amid a challenging operating environment that will keep the company's credit metrics weakly positioned for its Ba1 CFR.

LIQUIDITY

Moody's assesses UPL's liquidity as weak. The company's cash and cash equivalents of $580 million as of December 2023 will not cover its large financial obligations amounting to $1.9 billion for the 15 months until March 2025 towards scheduled debt repayments (including short-term debt), capital expenditure and shareholder payouts. This risk is further exacerbated given the rating agency's expectation that the company's operating cash flow will remain in deficit due to the challenging industry conditions.

Moreover, as an agrochemical company, UPL's cash flow generation is subject to extreme intra-year fluctuations in its working capital, making the company heavily reliant on its uncommitted, short-term working capital facilities to manage temporary imbalances. For instance, UPL's working capital outflow during the first half of fiscal 2024 was almost $1.4 billion, which the rating agency expects to somewhat reverse in the second half with a working capital release of about $950 million. Shortfalls or delays in the working capital release will further strain UPL's liquidity.

Whereas UPL has a track record of operating with continued access to short-term financing, the current high interest rates and stretched market liquidity would pose difficulty, especially in a challenging industry environment plagued with declining volumes, falling end-product prices and large working capital outflows. Moreover, narrowing headroom unde its financial covenants would also restrict the company's continued access to funding.

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

The ratings are unlikely to be upgraded given the negative outlook.

Moody's could change the outlook to stable if UPL implements financial policies and actions that substantially shore up its liquidity, improve credit metrics and restore its balance sheet strength, and if there are signs of a return to normalized industry conditions. Credit metrics appropriate for a Ba1 CFR include leverage of around 4.0x and EBITDA/interest greater than 2.5x.

Conversely, Moody's would downgrade the ratings if the company's liquidity profile remains weak or if industry conditions stay challenging with credit metrics stretched for its Ba1 CFR. Furthermore, breaches on any of its financial covenants absent any timely waivers would also exert downward ratings pressure.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Chemicals published in October 2023 and available at https://ratings.moodys.com/rmc-documents/410490. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.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 INR455 billion ($5.5 billion) and an estimated EBITDA of INR63 billion ($750 million) during the twelve months ended December 2023.

Listed on India's National Stock Exchange and the Bombay Stock Exchange, UPL Limited was 32.35% (as of 31

December 2023) 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 disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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