

Rating Action: **Moody's affirms UPL Corp's Baa3 ratings; outlook positive**

24 Jul 2018

Singapore, July 24, 2018 -- Moody's Investors Service has today affirmed UPL Corporation Limited's (UPL Corp) Baa3 issuer rating and the Baa3 rating on the company's senior unsecured notes maturing in 2021.

The outlook on all ratings remains positive.

RATINGS RATIONALE

"The Baa3 positive ratings reflect UPL Group's enhanced business profile following its proposed acquisition of Arysta Lifescience Inc. for \$4.2 billion to be paid in cash, financed with an appropriate mix of debt and equity," says Kaustubh Chaubal, a Moody's Vice President and Senior Credit Officer.

"UPL Group's business profile will further strengthen, and it will become the largest post-patent agrochemicals company globally with a further deepening in its offering, as illustrated by its presence across the entire spectrum of the agricultural value chain, from seeds, seed treatment, crop protection, storage to harvesting," says Chaubal, who is also Moody's Lead Analyst for UPL Group.

UPL Group comprises UPL Limited — which is the ultimate holding company of the group — UPL Corp, and various operating subsidiaries. All UPL companies operate through a centralized treasury function that is housed under UPL Limited.

Furthermore, there is significant overlap between the group's Indian and overseas operations.

Moody's ratings on UPL Corp, therefore, reflect the credit quality of the group as a whole.

In Moody's view, Arysta's asset-light and lean operations with a strong presence in Africa, Russia and Eastern Europe will complement UPL Group's leading position in India, the Americas and Western Europe, as well as its vertically integrated manufacturing capabilities.

Arysta's complementing product offering, with a strong presence in herbicides, bio solutions, seed treatment and other products, will help UPL Group in cementing its position by increasing market shares across these verticals.

Notwithstanding these business reasons and Arysta's fit, the acquisition is large, the first of its kind for the UPL Group, and entails execution risks, such as a timely and seamless execution, integration, and success in realizing business synergies. And, the partial debt financing of the acquisition will increase the company's financial leverage.

UPL Group will fund 29% or \$1.2 billion of the \$4.2 billion consideration through two separate fresh equity issuances of \$600 million. Each will be raised from subsidiaries of the sovereign wealth fund Abu Dhabi Investment Authority (ADIA) and the private equity firm TPG Capital (TPG).

Moody's expects UPL Corp to fund the remaining \$3.0 billion of the purchase consideration by drawing on the five-year term loan obtained from MUFG Bank, Ltd. and Cooperatieve Rabobank U.A.

However, its large cash balance of \$440 million at March 2018 and expected free cash flows of \$50 - 60 million in the fiscal year ending March 2019 (fiscal 2019) could somewhat reduce the extent of the drawdown.

Proforma the acquisition, which will only complete in January 2019, Moody's expects UPL Group to generate annual revenues of \$5 billion with EBITDA margins in the region of 21.5%. While adjusted debt/EBITDA will rise to 3.6x by March 2019, proforma the acquisition, Moody's expects it to recover swiftly to less than 3.0x by March 2020.

Moody's estimates that the annual cost and revenue synergy prospects for UPL Group and the acquired Arysta businesses will aggregate some \$140 million - \$200 million over one-two years following completion of the acquisition and will accelerate the pace of deleveraging.

Meanwhile, Moody's acknowledges the stringent regulatory requirements of the industry in terms of product registrations — which can be time consuming and involve significant financial commitments — thereby creating high entry barriers.

Nevertheless, UPL Group -- by virtue of its long operating history and its anticipated improved position following the Arysta acquisition with 13,000+ product registrations across diversified geographies -- will turn this situation into a strategic advantage.

The positive outlook reflects Moody's expectation that the company will successfully complete its acquisition of Arysta and seamlessly integrate the two operations without any significant delay.

The positive outlook also mainly reflects Moody's expectation that while leverage will increase following the acquisition, the larger business' significant free cash flow generation will help accelerate deleveraging to below 3.0x by March 2020.

Upward rating pressure could start to build as business synergies from the integration of Arysta flow through.

Specific financial metrics that Moody's will watch out for in relation to higher ratings include EBITDA margins well above 22-25%, adjusted debt/EBITDA below 2.5x, and positive free cash flow over a sustained period.

A substantial delay in the acquisition of Arysta and a subsequent delay in deleveraging will pressure the Baa3 positive ratings. Financial metrics that Moody's would consider for a lower rating include EBITDA margins below 18% and adjusted debt/EBITDA failing to improve and remaining above 3.5x.

Moody's ratings incorporate the assumption that UPL Corp remains an integral part of UPL Group and the significant inter-linkages between the two continue. Therefore, any further divestiture in UPL Corp by UPL Limited or, any significant increase in dividend payments by UPL Corp, would be viewed negatively.

The principal methodology used in these ratings was Chemical Industry published in January 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

UPL Corporation Limited, incorporated in Mauritius, is a wholly owned subsidiary of UPL Limited, headquartered in Mumbai. UPL Limited is one of the largest agro-chemicals companies globally, operating in the post-patent markets. For the fiscal year ended 31 March 2018 (fiscal 2018), UPL Limited recorded revenues of INR171 billion (\$2.6 billion) with an EBITDA of INR36 billion (\$570 million).

UPL Limited is listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) in India. It is 27.8% owned by the promoter family, headed by Mr. Rajnikant Shroff, who is the Chairman and Managing Director. The Chairman is supported by his sons Jai Shroff (CEO) and Vikram Shroff, and a team of professional managers.

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