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22nd November, 2024

BSE Limited
Mumbai

National Stock Exchange of India Ltd
Mumbai

SCRIP CODE: 512070

SYMBOL: UPL

Sub: Update on credit rating for UPL Corporation Limited by Moody's

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 22nd November, 2024, has communicated its rating action on UPL Corporation Limited's ("UPL Corp"), wholly owned subsidiary of UPL Limited.

Moody's has confirmed UPL Corp Ba2 corporate family rating (CFR) and senior unsecured debt rating. Moody's also confirmed the B1 rating on UPL Corp's $400 million undated perpetual junior subordinated euro bonds. Moody's has changed the outlook on the ratings to negative. Previously, the ratings were on review for downgrade.

The publication by Moody's is enclosed.

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: 2024.11.22 19:43:58 +05'30'

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

Encl: As above

MOODY'S RATINGS

Rating Action: Moody's Ratings confirms UPL's Ba2 CFR and senior unsecured debt rating, B1 rating on perpetual notes; outlook negative

22 Nov 2024

Singapore, November 22, 2024 -- Moody's Ratings (Moody's) has confirmed UPL Corporation Limited's (UPL Corp) Ba2 corporate family rating (CFR) and senior unsecured debt rating. We have also confirmed the B1 rating on UPL Corp's $400 million undated perpetual junior subordinated euro bonds. Concurrently, we have changed the outlook on the ratings to negative. Previously, the ratings were on review for downgrade.

These rating actions complete the review, which began on 7 August.

"The ratings confirmation is driven by some progress that the company has made on the refinancing for its upcoming debt maturities, as well as steps taken to deploy creditor-friendly policies that will restore some of its balance sheet strength and improve liquidity," says Kaustubh Chaubal, a Moody's Ratings Senior Vice President.

"The negative outlook reflects execution risks associated with the company's plans to improve liquidity and restore its balance sheet strength in a timely manner, amid a challenging operating environment," adds Chaubal, who is also our lead analyst for UPL.

RATINGS RATIONALE

UPL Group includes the ultimate holding company UPL Limited and its various Indian and overseas operating subsidiaries, including UPL Corp. Despite its subsidiary status, UPL Corp shares significant operational and financial integration with its parent, including a common treasury function, making its risk exposure reflective of the broader UPL Group's credit quality. As such, our ratings for UPL Corp continue to reflect the credit quality of UPL Group (UPL) as a whole.

Today's rating action follows UPL's announcement earlier this week that its board of directors have approved raising INR33.6 billion ($400 million) by way of a rights issuance in two tranches with $100 million expected to be received by December

2024 and the balance in 2025. UPL's promoters, which own 32.52% of the company, have committed to subscribing to any unsubscribed portion of the issuance.

The company also announced that private equity firm Alpha Wave Ventures II (Alpha) will invest $350 million in UPL's 86.67%-owned seeds subsidiary, Advanta Enterprise Limited. We expect the transaction to close by March 2025. Of the total purchase consideration, $250 million will be paid to UPL for the sale of its 8.93% stake in Advanta. Advanta will issue new shares (3.51% shareholding) to Alpha for the $100 million investment, which we expect will be applied toward funding the seeds business growth.

UPL will apply proceeds from the rights issuance and the stake sale in Advanta toward gross debt reduction. Pro-forma these two transactions, we expect the company's balance sheet will become leaner, with its debt/EBITDA leverage improving to around 5.7x at March 2025, compared to 6.2x without these transactions.

We note that UPL is also in advanced discussions with relationship banks to refinance its $250 million term loan maturity in September 2025, which illustrates its continued bank access.

UPL's Ba2 CFR reflects the company's substantial scale, leading global position in post-patent agrochemicals, and its geographically diversified, vertically integrated operations, which produce key raw materials and a product slate that caters to the entire agricultural food value chain. Despite its diverse offerings, which include seeds and agrochemicals used in crop cultivation, protection and preservation, the company remains exposed to the 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.

UPL's weaker earnings over the last 12-15 months and the consequent strain on its credit profile are consistent with its rated agrochemical peers. Channel inventories at distributors and farmers across various markets have now somewhat stabilized, but a global oversupply of agrochemicals will constrain product price increases, at least over the next two years. In addition, a shift in buying patterns, with distributors restocking closer to planting seasons, will keep volume growth moderate for the industry.

Our forecasts for UPL for the fiscal year ending March 2025 (FY24-25) and FY25-26 assume its revenue growing 5.5% and 4%, respectively, and its EBITDA margin gradually improving toward the higher end of 15%-17%. UPL's strategy of backward integration, which includes producing key raw materials in house, and its low operational break-even point will likely enhance its profitability as the industry rebounds. Meanwhile, the company has continued to focus on streamlining its working capital through efficiencies as well as reducing its reliance on relatively expensive short-term debt for financing. We therefore forecast UPL's credit metrics will improve steadily, with its debt/EBITDA leverage declining towards 4.5x-5.0x by March 2026, compared to 10.4x as of March 2024 and an estimated 9.0x at September 2024. Lower debt levels and a slight reduction in interest rates will help the company's EBITDA/interest coverage recover to around 2.0x-2.5x by FY25-26 from 1.1x during FY23-24.

OUTLOOK

The negative outlook reflects UPL's weak liquidity especially due to a refinancing wall building over the next two fiscal years, amid a still challenging operating environment with oversupply straining prices.

LIQUIDITY

UPL's balance sheet liquidity is weak. Its cash and cash equivalents of $467 million as of September 2024, estimated cash flow from operations totaling $1.3 billion over the 18 months to March 2026 will be insufficient to cover its financial obligations (including short-term debt), capital expenditures and shareholder payments over the same period.

UPL's cash flow is highly susceptible to changing weather patterns and seasonality, leading to significant intra-year working capital fluctuations, and its continued reliance on uncommitted, short-term working capital facilities to manage temporary mismatches.

Timely receipt of funds from the proposed rights issue and stake sale in Advanta would improve the company's liquidity. UPL's liquidity is further supported by an executed term sheet for a term loan to address its $250 million September 2025 term loan maturity.

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

We would downgrade UPL's ratings if there are delays in receiving proceeds from the rights issue and/or the stake sale in Advanta, leading to significant deviations from our expectation of debt reduction and leverage improvement. Furthermore, adoption of shareholder-friendly policies such as share repurchases or higher-than-expected dividends, or any large debt-funded acquisitions that weaken the company's financial profile and delay deleveraging would also hurt the ratings.

Downward rating pressure will also build if UPL's EBITDA margin falls below 12%, its gross debt/EBITDA leverage fails to improve and remains above 5.0x, or if the company is unable to maintain EBITDA/interest coverage of at least 2.0x, all on a sustained basis. Weakening liquidity or the company's adoption of aggressive financing to fund revenue growth – such that it fails to improve its liability mix, with its current liabilities continuing to dominate total liabilities on a sustained basis – would also pressure the ratings.

Upward rating momentum could develop over time if UPL's profitability returns to historical levels with its EBITDA margin remaining at or above 20%, its gross debt/EBITDA leverage stays well below 4.0x and its EBITDA/interest coverage remains above 3.0x, while the company generates positive free cash flow, all on a sustained and Moody's-adjusted basis.

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 INR441 billion ($5.3 billion) and an estimated EBITDA of INR47 billion ($568 million) during the 12 months ended September 2024.

The company is listed on India's National Stock Exchange and the Bombay Stock Exchange. It was 32.52% owned by its promoter family, led by chairman and group CEO Jaidev Shroff, as of September 2024.

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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