CARE Ratings
Professional Risk Opinion

December 11, 2015

CARE PLACES THE RATINGS ASSIGNED TO THE BANK FACILITIES OF ADVANTA LIMITED ON CREDIT WATCH AND NOTES THAT THE PROPOSED MERGER IS NOT LIKELY TO SIGNIFICANTLY IMPACT THE CREDIT PROFILE OF UPL LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities (fund based)	37.50	**CARE A- [Single A Minus] (Placed on credit watch)**	Placed on credit watch
Short-term Bank Facilities (Non-fund based)	70.00	**CARE A2+ [A Two Plus] (Placed on credit watch)**	Placed on credit watch
Short-term Bank Facilities (fund based)	40.00	**CARE A2+ [A Two Plus] (Placed on credit watch)**	Placed on credit watch
Long-term Bank Facilities (fund based)	37.50	**CARE A- [Single A Minus] (Placed on credit watch)**	Placed on credit watch
Total Facilities	**147.50 (Rupees One Hundred Forty Seven crore and Fifty lakhs only)**		

Rating Rationale

The rating assigned to the bank facilities of Advanta Limited (Advanta) are placed under 'credit watch', in view of the approved merger by the Board of Directors of Advanta and UPL Limited (UPL, rated 'CARE AA+/CARE A1+' for bank facilities and instruments) with UPL. The appointed date for the merger is April 1, 2015 and is subject to approval from various statutory authorities and stakeholders. The transaction is expected to be completed within 8-9 months. As on September 30, 2015, the promoter group (includes UPL and promoters in personal capacity) holds 59.51% stake in Advanta (UPL holds 46.47% equity stake in Advanta).

For every one equity share of Advanta, UPL will issue 1 equity share of UPL and 3 optionally convertible preference shares (tenure 18 months and at an interest rate of 5% p.a.). Also, every 471 preference shares of UPL will be converted to 10 equity shares of UPL. Thus, effective conversion rate is 1.06 times. For foreign currency fully convertible bonds (FCCBs) of Advanta, UPL will issue 1.06 equity shares. As on November 20, 2015, assuming full conversion of outstanding FCCBs and ESOPs into equity share capital along with direct equity shares issued; UPL will issue 77.45 mn equity shares at a face value of Rs.2 each. Apart from the same, the company will also issue preference shares optionally convertible in to equity shares of the company. Post-merger, the promoter's stake in equity capital of UPL is expected to be diluted to 27.80% from 29.80%.

Subsequently, UPL group can cover complete agriculture value chain from seed to plant protection technology and post-harvest solutions to farmers. Also, the synergy is expected to lead to a financial gain of around USD 14 mn (approximately Rs.90 crore) through reduction of general and administrative expenses, possible interest rate cut on Adavnta's debt and tax savings. Also, Advanta will benefit from the existing strong distribution network of UPL and UPL can have an early engagement with the farmers in the value chain leading to cross selling opportunities. Besides, new territory access will improve for Advanta in countries like Brazil, United States of America (USA), Europe and Mexico where UPL has strong presence and UPL can advantage from Advanta's strong presence in markets like Australia and Thailand.

CARE is in the process of evaluating the impact of the event on the credit quality of Advanta and would take a view on the ratings assigned to the bank facilities of Advanta once the merger is completed and the exact implications of the event can be ascertained.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

In view of the above development, CARE believes that although the credit profile of UPL in the short-term may be marginally tempered due to the merger, however, owing to synergies arising from the merger, strong financial profile of UPL due to dominant market position of UPL in the global agrochemical market, strong and diversified product portfolio, integrated and diversified operations across geographies, and comfortable liquidity position, the impact is not expected to be significant in UPL.

Background - Advanta

Advanta, formerly known as Advanta India Limited, with a track record of more than 20 years is engaged in research, development, production, distribution and marketing of hybrid agricultural field crop seeds and plant seeds for agricultural use. Initially, Advanta was incorporated in January 1994 as ITC Zeneca Limited as a joint venture between ITC Limited and Zeneca Limited. Subsequently, with change in management and shareholdings in the company at various stages, in February 2006, UPL acquired majority stake in the company and the promoter group holds 59.51% equity stake in the company as on September 30, 2015.

Advanta along with various subsidiaries, spread across the globe, has presence in India, the USA, Brazil, Argentina, Thailand and Australia. For further crop improvement and development, the company has its own unique proprietary germplasm, research and development centres, strategic alliances for value addition of biotech traits and usage of molecular technology in few crops.

The company’s portfolio encompasses all major hybrid varieties of seeds including field crops like rice, cotton, mustard, forage and grain sorghums, corn, sunflower and pearl millet, and vegetables crops include okra, hot pepper, brinjal and gourds.

Background - UPL

UPL (erstwhile known as United Phosphorus Limited - CIN: L24219GJ1985PLC025132) has a track record of more than 30 years and is promoted by Mr R. D. Shroff and family. As on September 30, 2015, the promoters hold 29.80% equity stake in the company.

UPL group is one of the leading agrochemical companies with a widespread presence across the globe through various subsidiaries/associates as reflected in around 72% of consolidated net sales being contributed through sales outside India in FY15 (refers to the period April 1 to March 31). The group has emerged as one of the largest generic agrochemicals player in the world having presence in various segments including crop protection products, intermediates, specialty chemicals and other industrial chemicals. UPL’s growth strategy is built around filing its own registrations globally and acquiring tail end brands through acquisitions/investments of global majors in regulated markets. The company has presence in 122 countries with production units in 28 countries including 13 units in India and 15 outside India. UPL holds more than 4,000 product registrations and 83 product patents as on March 31, 2015.

During FY15, as a part of strategic investments for improving market penetration in Brazilian market, the UPL group increased its stake in UPL Do Brasil to 100% from 73% and acquired 40% stake in the Sinagro group, a Brazilian company. The total consideration for acquiring additional stake in the above two entities is Rs.708 crore to be funded through internal accruals in the company.

Post-merger, the credit profile of UPL is not expected to be significantly impacted due to limited scale of operations of Advanta as compared to UPL (post-merger Advanta’s contribution to the total income from consolidated operations is expected to be around 10%). However, owing to comparatively lower PBILDT margins earned in the seeds business as compared to agrochemical business (the PBILDT margin of Advanta in CY14 is at 15.10% as compared to UPL’s PBILDT margin of 18.99% in FY15) and after including the debt of Advanta in UPL, the credit profile of UPL may marginally sub-due in the short-term. However, with operational synergies arising from the merger, robust financial profile and comfortable liquidity position of UPL, the impact is not expected to be significant in UPL.

Analyst Contact

Name: Ms Smita Rajpurkar
Tel: 022-6754 3458
Email: smita.rajpurkar@careratings.com

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

CONTACT

Head Office Mumbai

Mr. Sanjay Kumar Agarwal
Mobile: + 91 8108007676
E-mail: sanjay.agarwal@careratings.com

Mr. Amod Khanorkar
Mobile: + 91 9819084000
E-mail: amod.khanorkar@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Dinesh Sharma
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-99000 41975
Tel: +91-80-4115 0445, 4165 4529
E-mail: dinesh.sharma@careratings.com

CHANDIGARH
Mr. Sajan Goyal
2nd Floor, S.C.O. 196-197, Sector 34-A,
Chandigarh - 160 022.
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Saikat Roy
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 9820998779
Tel: +91-40-4010 2030
E-mail: saikat.roy@careratings.com

JAIPUR
Mr. Rakesh Jayaraman
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 76655 96136
Tel: +91-141-402 0213 / 14
E-mail: rakesh.jayaraman@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr. Rahul Patni
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-78754 33355
Tel: +91-20- 4000 9000
E-mail:rahul.patni@careratings.com

CIN - L67190MH1993PLC071691