

UPL Limited (Revised)

September 28, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long/Short-term Bank Facilities (Fund-based limit)	1,650 (reduced from 1,750)	CARE AA+ (Double A Plus) [under credit watch with developing implications] / CARE A1+ (A One plus)	Long term rating continues on credit watch / Short term rating removed from credit watch
Short-term Bank Facilities (Non-fund-based limit)	850 (enhanced from 750)	CARE A1+ (A One plus)	Removed from credit watch
Total Facilities	2,500 (Rupees Two Thousand Five Hundred crore only)		
Non-Convertible Debenture issue	1,350 (Rupees One Thousand Three Hundred Fifty crore only)	CARE AA+ (Double A Plus) [under credit watch with developing implications]	Continues on credit watch
Commercial Paper	100 (Rupees Hundred crore only)	CARE A1+ (A One plus)	Removed from credit watch

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The ratings assigned to various bank facilities/instruments of UPL Limited (UPL) were placed on **'credit watch with developing implication'** on July 24, 2018 following UPL announcing to buy Arysta LifeScience Inc. and its subsidiaries for approx. USD 4.2 billion in cash.

CARE is in dialogue with the company and is receiving details pertaining to the acquisition. Based on information received, CARE is now in position to reaffirm the short term rating and thus removes it from **'credit watch with developing implication'**. However, long term rating continues to be placed on **'credit watch with developing implication'**.

The ratings assigned to various bank facilities/instruments of UPL positively factors in leading market position in global agrochemical market, varied product portfolio, diverse geographical presence, extensive experience of promoters, and healthy revenue growth vis-à-vis industry and profitability expansion supported by acquisitions. The ratings are further strengthened by adequate risk mitigation measures undertaken by the company including insuring receivables, inventory management and strategic procurement tie-ups. The ratings also take into account adequate overall financial risk profile. The aforementioned ratings strengths are partially offset by, high working capital intensity, impact of seasonality on the overall working capital cycle, regulatory risk associated with agrochemicals usage and foreign exchange fluctuation risk. The ability of the company to draw adequate synergistic benefits from the Arysta acquisition and considerably de-leverage its balance sheet will be key rating sensitivity. Any adverse regulatory development or increase in working capital cycle requirement will be a key rating monitorable.

Detailed description of the key rating drivers**Key Rating Strengths*****Leading market position with varied product portfolio and diverse geographic presence***

UPL is one of the largest generic agrochemical companies in the world with a considerable presence across major markets such as the USA, Europe, Latin America and India. The company also enjoys leadership position in the Indian market. The company has presence in more than 130 countries with 35 manufacturing facilities spread across the globe (16 manufacturing facilities in India and balance outside India). The company has 6,181 product registrations and the wide portfolio covering crop protection chemicals for majority of the crops, which helps in mitigating risk from changing crop patterns.

Extensive experience of promoters with established track record of operations

UPL was incorporated in 1969 and has a successful track record of more than 50 years in the industry. UPL is promoted by Mr. R. D. Shroff (Chairman & managing Director) having more than 50 years of experience in the same field. Mr. R. D. Shroff is supported by other family members including Mrs. S. R. Shroff (Vice Chairman), Mr. J.R. Shroff (Global CEO of the

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

group) and Mr. V.R. Shroff (Executive Director) all of them have experience in the industry. The top management is ably supported by a professional senior management team having to manage day-to-day operations of the company.

Synergy from acquisition of Arysta LifeScience Inc

In July 2018, UPL announced to buy Arysta LifeScience Inc. and its subsidiaries (collectively Arysta) for approximately US\$4.2 billion in cash. UPL's wholly owned subsidiary in Mauritius, UPL Corporation Limited (UPL Corp), signed a definitive agreement with U.S.A based Platform Specialty Products Corporation to acquire its agrochemical business i.e. Arysta, a global provider of innovative crop protection solutions, including BioSolutions and Seed Treatment, subject to customary closing conditions and regulatory approvals. This transaction is backed by equity investment of USD 1.2 billion from Abu Dhabi Investment Authority and TPG Capital, wherein they both will invest 600 million each for a combined stake of 22% in UPL Corp and debt financing of USD 3 billion through a 5 year bullet maturity loan from Rabo Bank and MUFG Bank.

Post the acquisition of Arysta LifeScience Inc., UPL will have a more varied product portfolio, with combined product registrations reaching more than 13,000 and minimal product overlap, also some of the products offered by the Arysta would fill the gaps where UPL doesn't have significant presence. This is expected to boost the revenue especially from Europe where UPL has smaller presence by increasing the market penetration, as Arysta has significant presence in the European market. Further, UPL has strong presence in certain Latin American countries, Western Europe, USA whereas, Arysta has strong presence in Africa, Middle East, Eastern Europe, Russia, which is complementary to UPL and would derive synergistic benefits.

Although, the transaction is highly favorable for UPL; however, there would be significant increase in leverage initially, before gradually improving as synergistic benefits are realized.

The ability of the company to draw adequate synergistic benefits from the acquisition is a key rating sensitivity.

Healthy revenue growth vis-à-vis industry, driven by increase in volume

Despite drought like condition and unseasonal rains in certain markets, growth in volume is observed, driven by higher penetration in existing markets, continual improvement towards distribution network and new product launches. The increase in prices of the products is limited due to competitive market. The company's focus on positioning itself as a branded generic agrochemical company over commoditised ones (in FY18, sale of branded products contributed 87% of net sales) and to reduce share of high volume but low margin products, results in high profitability margins in the company. UPL reported revenue growth of 7% yoy, which is higher than the industry growth of 0.2%; the growth is mainly driven by volume growth of 10% but hampered by drop in prices by 1% and currency movement of 2%.

Profitability margin expansion continues

Despite decline in prices and adverse business conditions (related to drought situation in Australia, crop disease in Northern Europe and very dry weather in southern Europe etc.), PBILDT margin improved to 21.10% in FY18 compared to 20.07% in FY17 & 17.93% in FY16, supported by increase in sales volumes, improvement in manufacturing process to optimise costs and enhanced product mix. The group has reasonable amount of integrated presence which comforts steady supply of raw materials with reduced price volatility. This is further strengthened by strong distribution network and healthy supply chain network. Post-acquisition, existing manufacturing facilities would be optimally utilised which would further improve operational efficiencies. Furthermore, despite increase in interest and finance cost to fund the increase in borrowings, along with increase in LIBOR and rupee depreciation, PAT margin of the company improved to 11.5% in FY18 compared to 10.40% in FY17.

Adequate overall financial risk profile

The working capital requirement increased in FY18 due to tight liquidity position of channel partners in India and increased statutory receivables due to delay in getting GST refunds. All this has been funded through a combination of long term debt, short term debt and internal accruals. Total debt (including acceptances) increased to Rs.7,817 crore as at March 31, 2018 compared to Rs.7,266 crore as at March 31, 2017 due to USD 300 mn bond issue in UPL Corporation (100% subsidiary of UPL). The company has made investments to the tune of Rs.632 crore in Brazil, of which certain investments are towards increasing its presence in seed business (as per management).

Nevertheless, the overall gearing ratio improved to 0.85x in FY18 compared to 0.98x as at March 31, 2017 due to accretion to reserves. Total debt/PBILDT and Net debt/PBILDT continued to remain stable at around 2.11x and 1.01x respectively as on March 21, 2018. Also, interest coverage ratio improved to 4.74x in FY18 vis-à-vis 4.55x in FY17 due to increased profitability. Post-acquisition of Arysta deal, Net debt/PBILDT is expected to substantially worsen to 3.38x from 1.01x as on March 31, 2018. Besides, overall gearing is expected to deteriorate to 2.85x from 0.85x as on March 31, 2018; however management remains committed to realize synergy benefits of the deal and subsequently reduce debt levels in medium term.

Adequate safeguard against credit risks

With company's increasing presence in the Brazilian market, the working capital requirement is high due to competitive nature of Brazilian market wherein the credit period offered is as per crop season (i.e. payment is received post-harvest).

To mitigate the risk of high credit period offered, on an average, the company insures majority of its receivables in order to safeguard against credit default risk. Furthermore, there is a partial natural hedge available owing to manufacturing undertaken outside India, foreign currency term debts and sales outside India. Also, the company hedges majority of the unhedged foreign currency exposure to protect against volatility.

Key Rating Weaknesses

Working capital intensive business

The company during FY18 maintained moderate net working capital cycle at 110 days (116 days in FY17) and gross working capital cycle of 246 days in FY18 (236 days in FY17). The working capital requirements of the company continues to remain elongated on account of considerable exposure in Latin America (credit period offered is as per crop season), tight liquidity position of channel partners and increased scale of operations of the company. Nonetheless, the liquidity position of the company continues to remain at comfortable level with adequate unutilised fund based bank credit lines in India and high cash and bank balance of Rs.2,873 crore as on March 31, 2018.

Exposure to inherent risks in Agrochemical industry

UPL sells its products in more than 130 countries across the world (through more than 90 subsidiaries) and it has production units spread in 35 locations. Considering the nature of the product usage, registration, consequent environmental impacts, etc., UPL is required to comply with various local laws, rules and regulations and operate under strict regulatory environment. Also the sector is dependent on farm income and monsoon levels. Thus, infringement in any of the law, and any significant adverse change in the import/export policy or environmental/regulatory policies or distribution of monsoon can have a consequence on the operations of the company.

Analytical approach: Consolidated

CARE has analysed UPL's credit profile by considering the consolidated financial statements of the group owing to financial and operational linkages between the parent and subsidiaries, common management and fungible cash flows, and various corporate guarantees provided by UPL to various subsidiaries for raising debt.

Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology-Manufacturing Companies](#)

About the Company

UPL Limited (UPL, erstwhile known as United Phosphorus Limited) is the flagship UPL group, which has emerged as one of the leading agrochemical companies in the world with a widespread presence across the globe through various subsidiaries/associates as reflected in around 80% of FY18 consolidated revenue is contributed through sales outside India. It has a track record of more than 50 years and is promoted by Mr. R. D. Shroff and family. As on March 31, 2018, the promoters held 30.27% stake in the company. The group has presence in various segments including seeds, crop protection products, intermediates, specialty chemicals and other industrial chemicals. UPL's growth strategy is built around filing its own registrations globally and acquiring products and companies to increase market access and having strong & cost efficient supply chain.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	16,708	17,601
PBILDT	3,386	3,712
PAT	1,733	2,030
Overall gearing (times)	0.98	0.85
Interest coverage (times)	4.61	4.74

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: 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.

Analyst Contact:

Name: Murtuza Patrawala

Tel: 022 6754 3540

Email: murtuza.patrawala@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based-Short Term	-	-	-	850.00	CARE A1+
Fund-based - LT/ ST-Cash Credit	-	-	-	1650.00	CARE AA+ (Under Credit watch with Developing Implications) / CARE A1+
Debentures-Non Convertible Debentures	October 5, 2010	10.25%	October 2018	75.00	CARE AA+ (Under Credit watch with Developing Implications)
		10.35%	October 2019	75.00	
		10.42%	October 2021	75.00	
		10.48%	October 2022	75.00	
Debentures-Non Convertible Debentures	June 8, 2012	10.35%	June 2019	150.00	CARE AA+ (Under Credit watch with Developing Implications)
		10.40%	June 2022	150.00	
Debentures-Non Convertible Debentures	July 6, 2011	10.90%	July 2026	250.00	CARE AA+ (Under Credit watch with Developing Implications)
Debentures-Non Convertible Debentures (Proposed)	-	-	-	500.00	CARE AA+ (Under Credit watch with Developing Implications)
Commercial Paper	-	-	-	100.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	LT	250.00	CARE AA+ (Under Credit watch with Developing	1)CARE AA+ (Under Credit watch with Developing	1)CARE AA+; Stable (20-Oct-	1)CARE AA+ (13-Jul-16)	1)CARE AA+ (21-Oct-15)

				Implications)	Implications) (24-Jul-18)	17)		
2.	Non-fund-based-Short Term	ST	850.00	CARE A1+	1)CARE A1+ (Under Credit watch with Developing Implications) (24-Jul-18)	1)CARE A1+; Stable (20-Oct-17)	1)CARE A1+ (13-Jul-16)	1)CARE A1+ (21-Oct-15)
3.	Fund-based - LT/ ST-Cash Credit	LT/ST	1650.00	CARE AA+ (Under Credit watch with Developing Implications) / CARE A1+	1)CARE AA+ / CARE A1+ (Under Credit watch with Developing Implications) (24-Jul-18)	1)CARE AA+; Stable / CARE A1+ (20-Oct-17)	1)CARE AA+ / CARE A1+ (13-Jul-16)	1)CARE AA+ (21-Oct-15)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (21-Oct-15)
5.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA+ (Under Credit watch with Developing Implications)	1)CARE AA+ (Under Credit watch with Developing Implications) (24-Jul-18)	1)CARE AA+; Stable (20-Oct-17)	1)CARE AA+ (13-Jul-16)	1)CARE AA+ (21-Oct-15)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)CARE AA+ (21-Oct-15)
7.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA+ (Under Credit watch with Developing Implications)	1)CARE AA+ (Under Credit watch with Developing Implications) (24-Jul-18)	1)CARE AA+; Stable (20-Oct-17)	1)CARE AA+ (13-Jul-16)	1)CARE AA+ (21-Oct-15)
8.	Commercial Paper	ST	100.00	CARE A1+	1)CARE A1+ (Under Credit watch with Developing Implications) (24-Jul-18)	1)CARE A1+ (20-Oct-17)	1)CARE A1+ (08-Nov-16)	-
9.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA+ (Under Credit watch with Developing Implications)	1)CARE AA+ (Under Credit watch with Developing Implications) (24-Jul-18)	1)CARE AA+; Stable (20-Oct-17)	-	-

CONTACT**Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: meenal.sikchi@careratings.com**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@careratings.com**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

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. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: deepak.prajapati@careratings.com**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: pradeep.kumar@careratings.com**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062

Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91- 0172-490-4000/01

Email: anand.jha@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. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.

Cell: +91 - 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@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. Pratim Banerjee**9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691