UPL Limited

October 18, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debenture issue	500 (Rupees Five Hundred crore only)	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	Assigned

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

Ratings assigned to the proposed Non-Convertible Debenture(NCD) of UPL Limited (UPL) positively factors in dominant market position in global agrochemical market; strong and diversified product portfolio, integrated and diversified operations across geographies, synergies derived from acquisitions-resulting into healthy revenue growth and profitability margins. The ratings also reflect adequate financial risk profile and comfortable liquidity position. 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 strengths are, however, tempered by, high working capital intensity, the impact of seasonality on the overall working capital cycle ,regulatory risk associated with agrochemicals usage and foreign exchange fluctuation risk

Any significant debt-funded acquisitions, any adverse regulatory development and efficient working capital management will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Dominant market position: *UPL is one of the largest generic agrochemical companies in the world with a presence across major markets such as the USA, Europe, Latin America and India. The company also enjoys leadership position in the Indian market. Furthermore, given the high entry barriers, UPL is well positioned to gain from the increasing agrochemical consumption to boost agriculture output around the globe.*

Geographical as well as product diversification: *The company has presence in more than 130 countries with 33 manufacturing facilities spread across the globe. Revenue of the company is well diversified, with almost 80% being generated outside India during 2017. Regions of Latin America, Europe, and the North America continue to remain largest markets outside India. The company has more than 5,000 product registrations and the wide portfolio covering crop protection chemicals for majority of the crops helps in mitigating risk from changing crop patterns. The company is present in the complete agriculture value chain (from seed, seed protection to post harvest storage solutions) thereby aiding higher access to the farmers by providing one stop solution for various agricultural needs. Presence across geographies mitigates fluctuation in demand from any one region. Such diversity in the revenue as well as product base insulates the company from significant adverse fluctuation in the revenue.*

Healthy Revenue growth and expansion in profits: *Despite impact of monsoon vagaries in certain markets and limited increase in prices, company observed growth in volume mainly driven by higher penetration in existing markets, continual improvement towards distribution network and new product launches. The company's focus on positioning itself as a branded generic agrochemical company over commoditised ones and to reduce share of high volume but low margin products, resulted in high profitability margins in the company.*

Adequate financial risk profile and comfortable liquidity position: *While total debt (including acceptances) increased to Rs 7,266 crore as at March 31, 2017, from Rs 5,950 crore as on March31, 2016, mainly on account of also Issuance of USD 500 million bonds (Rs. 3,210 crore as on March 31, 2017) through overseas subsidiary. Nevertheless, the overall gearing ratio continued to remain comfortable at 0.98x as at March 31, 2017. Also, interest coverage ratio was comfortable at 4.55x and total debt/GCA at 3.16 times in FY17. Net debt of the company stood at Rs 3,480 crore as on March 31,2017. Going ahead, any significant debt-funded acquisitions and efficient working capital management will be key rating monitorables.*

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

Adequate risk mitigation measures: *Company is required to offer high credit period to the customers owing to competitive nature of business and in accordance to the general market parlance in a particular geography, which can range from 90 days and above. Additionally, with the company's increasing presence in the Brazilan 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 more than 75% of gross receivables in order to safeguard against credit default risk .Further though company is exposed to foreign currency fluctuation risk, 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 its unhedged foreign currency exposure to protect against volatility.*

Key Rating Weaknesses

Working capital intensive business: UPL's core business is working capital intensive by virtue of seasonality of agriculture business. The company is required to maintain adequate inventory to meet the demand and offer high credit period to customers. Furthermore, in order to tackle the irregular supply of certain key raw materials, the company needs to maintain adequate stock of raw material leading to high working capital requirement. High working capital requirements is on account of increased exposure in Latin America (credit period offered is as per crop season), tight liquidity position of channel partners in India due to subdued demand and increased scale of operations of the company. Despite the above, the company during FY17 maintained moderate working capital cycle at 116 days. The working capital requirements of the company continues to remain elongated on account of increased exposure in Latin America (credit period offered is as per crop season), tight liquidity position of channel partners in India due to subdued demand 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 coupled with healthy cash balance.

Regulatory Risk: Considering the nature of the product usage, registration, application, and consequent environmental impacts, UPL is required to comply with various local laws, rules and regulations and operate under strict regulatory environment. Thus, infringement in any of the law, and any significant adverse change in the import/export policy or environmental/regulatory policies in the area of operations of the company, can have a serious consequence on the operations of the company.

Analytical approach:

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
Rating Methodology: Factoring Linkages in Rating

About the Company

UPL Limited (UPL, erstwhile known as United Phosphorus Limited) has a track record of more than 45 years and is promoted by Mr R. D. Shroff and family. As on March 31, 2017, the promoters held 30.27% 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 by an average 80% of consolidated revenue being contributed through sales outside India for the past three years (FY14-FY16; 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 more than 130 countries and production units in 33 countries including 13 units in India. UPL holds 5,000 product registrations indicating extensive market acceptance and 200 product patents as on March 31, 2017.

In June 2016, the company's scheme of Amalgamation with Advanta Limited was sanctioned. Accordingly, all the business, assets and liabilities of Advanta Limited were transferred to the Company in FY17.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	14,192	16,668
PBILDT	2,544	3,346
PAT	952	1,733
Overall gearing (times)	1.00	0.98
Interest coverage (times)	3.61	4.55
Overall Net gearing (Times)	0.80	0.59

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

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.*

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****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.

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
Debentures-Non Convertible Debentures (Proposed)	-	-	-	500.00	CARE AA+; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Short Term Instruments-CP/STD	ST	-	-	-	-	-	1)Withdrawn (13-Oct-14)
2.	Debentures-Non Convertible Debentures	LT	250.00	CARE AA+; Stable	1)CARE AA+; Stable (21-Sep-17)	1)CARE AA+ (13-Jul-16)	1)CARE AA+ (21-Oct-15)	1)CARE AA+ (13-Oct-14)
3.	Non-fund-based-Short Term	ST	750.00	CARE A1+; Stable	1)CARE A1+; Stable (21-Sep-17)	1)CARE A1+ (13-Jul-16)	1)CARE A1+ (21-Oct-15)	1)CARE A1+ (13-Oct-14)
4.	Fund-based - LT/ ST-Cash Credit	LT/ST	1750.00	CARE AA+; Stable / CARE A1+	1)CARE AA+; Stable / CARE A1+ (21-Sep-17)	1)CARE AA+ / CARE A1+ (13-Jul-16)	1)CARE AA+ (21-Oct-15)	1)CARE AA+ (13-Oct-14)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (21-Oct-15)	1)CARE AA+ (13-Oct-14)
6.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA+; Stable	1)CARE AA+; Stable (21-Sep-17)	1)CARE AA+ (13-Jul-16)	1)CARE AA+ (21-Oct-15)	1)CARE AA+ (13-Oct-14)
7.	Debentures-Non	LT	-	-	-	-	1)CARE AA+	1)CARE AA+

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
	Convertible Debentures						(21-Oct-15)	(13-Oct-14)
8.	Debentures-Non Convertible Debentures	LT	300.00	CARE AA+; Stable	1)CARE AA+; Stable (21-Sep-17)	1)CARE AA+ (13-Jul-16)	1)CARE AA+ (21-Oct-15)	1)CARE AA+ (13-Oct-14)
9.	Commercial Paper	ST	100.00	CARE A1+	1)CARE A1+ (21-Sep-17)	1)CARE A1+ (08-Nov-16)	-	-
10.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA+; Stable	-	-	-	-

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