Rating Rationale for United Phosphorus Ltd's (UPL) Unsecured Non Convertible Debenture (NCD) Issues aggregating ₹300Crore: (1) ₹ 75 crore with tenor of 8 years; (2) ₹ 75 crore with tenor of 9 years; (3) ₹ 75 crore with tenor of 11 years; (4) ₹ 75 crore with tenor of 12 years

NCD Issue Rating: BWR AA+	Outlook : Stable

Brickwork Ratings (BWR) has assigned BWR AA+ (Pronounced BWR Double A Plus) Rating for **United Phosphorus Ltd (UPL)** unsecured NCD issues aggregating ₹ 300 Crore. 'BWR AA+' stands for an instrument that is considered to offer High credit quality / safety in terms of timely servicing of principal and interest obligations. The rating factors, inter alia, UPL's established position in the generic agrochemical segment, healthy financial performance and comfortable capital structure, high working capital requirement and criticality of successfully managing the large overseas acquisitions. UPL is ranked among the top 5 post- patent agrochemical manufacturers in the world backed by its diverse product offerings and end markets, overseas distribution network, successful track record of acquisitions and their integration alongwith its strong R&D capabilities.

Issue Details

Instrument	Amount	Rating	Assigned/ Reaffirmed	Rating Assigned on
Non Convertible Debenture	Aggregating ₹ 300 crore	BWR AA+ (Stable)	Assigned	September 28 2010

Instrument Details
₹ 75 crore with tenor of 8 years
₹ 75 crore with tenor of 9 years
₹ 75 crore with tenor of 11 years
₹ 75 crore with tenor of 12 years

Outstanding Ratings

Instrument	Amount	Rating	Assigned/Reaffirmed
Non Convertible Debenture	Aggregating ₹ 300 crore	BWR AA+ (Stable)	Reaffirmed

Background

United Phosphorus Ltd (UPL), promoted by Mr. Rajju Shroff, is a leading global manufacturer of generic agrochemical products. As on June 30, 2010, promoters and their group held 27.9% stake in the company while foreign institutional investors held about 33.5%. Financial Institutions, banks, mutual funds, insurance companies etc. hold 19.7% in the company.

Business Model

UPL's business is well diversified with presence across various product categories, product segments and diverse geographies. Its product profile includes crop protection, intermediates, specialty chemicals and other industrial chemicals. The company offers end–to-end agricultural inputs ranging from seeds to crop protection to post harvest activity. UPL's agrochemical segment manufactures insecticides, fungicides, herbicides, fumigants, and rodenticides. The company's seeds business rests with its associate Advanta India Ltd (Advanta) (49.9% stake). UPL manufactures specialty and industrial chemicals for captive consumption and industrial applications. UPL has a wide manufacturing and distribution set up. Its manufacturing network spans 24 locations across India, France, Spain, UK, Vietnam, Argentina, Netherlands, Italy, and while the distribution set up is spread over 86 countries. In India, its manufacturing facilities are at Vapi, Halol, Ankleshwar, Haldia, Jammu & at Jhagadia where it has a captive power plant as well.

The company has strong research and development (R&D) capabilities focused on expanding its product portfolio. It also has a dedicated team for product registrations which allows UPL to sell its products in the markets in which they are registered. UPL has made considerable investments towards product registrations as these are vital for its business.

UPL's focus has been on the generics opportunity in the regulated markets of US and Europe. Over the last few years, UPL's growth strategy is focused on inorganic growth through acquisitions in key and emerging markets. The company derives over 75% of its revenues from international markets.

UPL's business is well integrated, by way of own manufacturing of certain raw materials for its agrochemical business coupled with low cost production base in India and well entrenched distribution network in target markets. Its distinctive forward and backward integrated business structure have enabled it to become a leading global player. UPL competes with larger agrochemical and crop protection companies like Bayer, Syngenta and Monsanto globally.

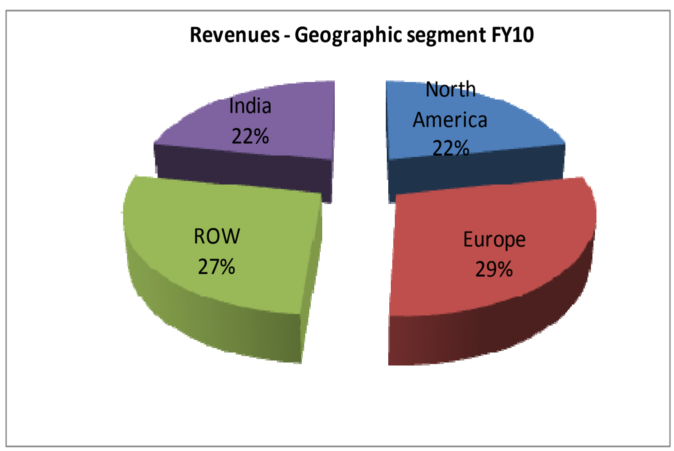
Business Segments

Agrochemicals Segment: UPL is an established player in the global generic agrochemical market and the 3rd largest player in India. Its agrochemical products include insecticides, herbicides, fungicides etc. These are sold as formulations, technicals or combination products. UPL primarily exports technicals, which are formulated locally by its subsidiaries prior to distribution.

UPL manufactures various pesticide brands across insecticides, herbicides, fungicides and fumigants. *(Table below shows Company's leading brands)*

Product	Brands	Key Chemical	Usage
Insecticides	Phoskill	Monocrotophos	Cotton & Pulses
	Ustaad, Cyrux, Up Cyde, Toppel	Cypermethrin	Crop protection
	Perkill, Perm-up, Tengrad	Permethrin	Agriculture & horticulture
Herbicides	Devrinol	Napropamide	Weeds in Tomatoes, Oilseeds, Tobacco
Fungicides	Uthane	Mancozeb	Agriculture & horticulture
Fumigants	Quickphos, Fumino, Weevillicide	Aluminium Phosphide	Stored products & rodents

Over the last few years, UPL has expanded its product profile and strengthened its distribution network through strategic acquisitions (both company & product) in key and emerging markets. The company has been able to successfully integrate and benefit from its various acquisitions across diverse geographies.



Until FY2002, about 53% of its revenues were from the domestic markets which were exposed to the vagaries of monsoons and poor rural infrastructure. Over the last few years, UPL has lowered its dependence on domestic markets through acquisitions which have given it access to local distribution networks. UPL's well integrated operations coupled with adherence to international technical and quality control norms has enabled the company to gain a strong foothold in the global market. International markets contribute over 75% to UPL's revenues. Agrochemicals contributes majority to company revenues.

Working capital management

The agrochemical industry is working capital intensive requiring maintenance of higher inventory and receivables as companies operate primarily through their vast distribution set up. Further non availability of key inputs round the year coupled with seasonal nature of agricultural cultivation in India requires maintenance of high inventory levels. Longer turn around time for new products & registrations with new launches requiring extensive field trials and tests result in working capital cycles getting stretched.

Industrial & Specialty Chemicals: The segment caters principally to agrochemical, dye, pharmaceutical and match industries. Significant proportion of industrial and specialty chemicals produced are for captive consumption in whole or for manufacture of agrochemical products. UPL manufactures various types of industrial & specialty chemicals including chlor-alkali chemicals, phosphorus halides, phosphonates, flame retardants, antioxidants etc.

Seeds: UPL's seeds business is conducted through its associate company Advanta. Advanta is an agronomic seed company having presence in genetically modified and hybrid seeds with operations across India, Australia, Thailand and Argentina, and USA.

Financial Performance:

UPL has posted a healthy revenue growth of ~32% (CAGR 2007-10) backed by a well integrated operations and diversified product and geographic markets. Net Sales grew 10% to ₹ 52900 mn in FY2010 from ₹ 48,021 mn in FY2009. UPL's capital structure stands comfortable with networth of ₹ 24.53 bn and a moderate debt equity ratio of 1.00. The company has a strong liquidity position with cash and bank balances at ₹ 15.78 bn as on March 31, 2010.

Key Financials:

₹ Mn

Key Ratio's (Consolidated)	2010	2009	2008
Net Sales	52900	48,021	35,155
EBITDA	9,991	9,449	7055
PAT	5,168	4,651	2,589
Networth*	24,535	21,396	17,244
Total Debt	23,818	20,665	15,683
Debt-Equity Ratio	1.00	1.03	0.95
Interest Coverage	5.47	5.37	4.79
Debt-Service coverage ratio	1.70	1.13	0.88
Operating Margins (EBITDA/ Op Income)	18.3	18.8	18.9
Profitability margins (PAT/Op Income)	9.5	9.5	6.9
Return on capital employed	16.1	18.0	13.9
Net cash accruals to total debt	0.26	0.32	0.24
Current ratio	2.44	1.95	1.96

* includes product registrations aggregating ₹ 2,516 mn in FY10, ₹ 2816 mn in FY09 and ₹ 2753 mn in FY08.

Notes:

- Other Income excluded for EBITDA calculation
- Networth excludes Goodwill & Intangible Assets

Consolidated Half Year Results				
	6M FY2010		6M FY2009	
	₹ Mn	%	₹ Mn	%
Net Sales	26,549	100	27,330	100
OPBDIT	5,218	19.65	5035	18.42
PAT	2,594	9.77	2,677	9.80

For the half year ending 30th September 2010, consolidated revenues were ₹ 26,549 mn down 3% from ₹ 27,330 mn in the corresponding previous period on account of a 4% decline in price and a 5% negative impact of currency which offset the moderate 7% increase in volumes. EBITDA margins improved from 18.42% to 19.65% due to cost efficiencies undertaken by UPL. Net profits fell to ₹ 2,594 mn from ₹ 2,677 mn for the same period due to increased interest costs including forex loss.

In June 2010, UPL acquired the non-mixture Mancozeb fungicide business and related assets from Dupont including manufacturing and formulation production facilities in Barranquilla, Colombia. UPL and its subsidiaries acquired the right to sell Manzate® (brand name) and its formulations throughout the world. Integration of operations is underway and UPL estimates revenues of ~₹ 200 crs to flo w in FY2011. The acquisition expected to further strengthen UPL's position in the segment & enhance its global leadership position. It also allows expansion of its already strong fungicide business catering to the high value crops and the high growth emerging markets including South and Central America.

Foreign Exchange Management

UPL derives ~75% of its revenues from international markets, where the highly regulated markets of US and Europe contribute ~51% to UPL's total revenues. Any major fluctuations in exchange rates of these currencies could have a significant impact on the profits of the company. The company has a proactive foreign exchange policy.

Industry Background

The global seed & crop protection market is estimated to be ~USD71 bn *(Source: Phillips McDougal, UPL)*. The market divided into products protected by patent (30%) and generic (off patent -70%). The agrochemical market is highly regulated and the last few years have seen a significant consolidation through mergers & acquisitions owing to the following factors:

- Slow pace of new product development on account of prohibitive costs and longer time to market new products
- Growing generics penetration due to high costs of new product introductions, registrations and regulatory compliances
- High entry barriers due to significant and upfront investment in product registration and manufacturing facilities.

Growth Drivers

- Population growth and limited arable land: World population is estimated to grow to ~8.9 bn by 2050 from the present ~6.8 bn in 2008 (U.N.). While population is growing at a steady pace, the land available for agricultural cultivation is continues to remain limited. World arable land is about 15.7 mn sq.km. *(CIA worldbook)*. Declining arable land per person has led to the increased use of high yield seeds, crop protection and post harvest crop care to augment agricultural output to meet growing food requirements.

- Growing GDP of developing countries: Increasing world population, growth in developing nations and increasing urbanization are spurring the demand for food. Growing per capita income and GDP levels in developing countries has resulted in increased food consumption. Further, increasing affluence of the middle class population has led to changing diet patterns and demand for better quality food. Rising prices of agricultural commodities leading to higher income of the farmers has also enhanced consumption of crop protection products.
- Bio-fuel potential: World biofuel output is estimated to increase pushed by rising crude oil prices and the need for alternate fuel options. Use of newer feedstock like oilseeds and grains for biofuels has further increased demand for crop output. This augurs well for demand of crop protection and agrochemical products.

Constraints

- Stringent government regulations and policies: Agrochemicals industry is highly regulated by specific and separate registration processes in different countries along with separate environmental, safety and field trial guidelines. Further, product registration and approval is a lengthy and expensive process. The strict regulatory compliances coupled with high cost and long lead time involved, are a constraint to new registrations and entry of new players.
- Uncertainty in continuous supply of raw materials: Indian agrochemical manufacturers import certain key chemicals, short supply of which leads to even higher inventory maintenance. Uncertainty with regards to availability of some key raw materials round the year and their rising costs continue to be a challenge.
- Dependence on natural rainfall in domestic market: Agriculture in India continues to rely heavily on natural rainfall which is unpredictable. Quantum, timing and even distribution of rainfall are crucial for domestic crop output. Crop yields are low in India due to inadequate irrigation and poor rural infrastructure. Domestic revenues of players' are exposed to risks related to vagaries of monsoons in India.

Rating Outlook

The agrochemical industry has good growth potential backed by rising demand for crop output from growing population, biofuel production and paucity of arable land coupled with high prices of agricultural commodities. Further high entry barriers protect players from severe price and product competition. In India, penetration of agrochemical products is low due to poor irrigation and rural infrastructure.

UPL is a leading global player in the agrochemical industry with presence across diverse product profiles and geographies. The company has managed to successfully integrate and benefit from its various acquisitions and has posted healthy growth ~32% CAGR (Fy2007-2010) over the last 4 years. UPL's capital structure stands comfortable with networth of ₹ 24.53 bn and debt equity ratio of 1.00 times. Liquidity levels remain strong with cash balance of ~₹ 15.78 bn in FY2010. Profitability levels remain good with operating and net margins at ~18% and ~9.5% respectively in FY2010.

Going forward, Brickwork expects UPL to maintain its established position in the agrochemical industry and post healthy revenue and profitability numbers while retaining its comfortable capital structure and liquidity position. While improvement in irrigation and rural infrastructure facilities will be key for higher penetration and growth in domestic market, UPL's continued ability to successfully manage large acquisitions would be crucial for its performance.

Analysts	Media
Anusha Subramaniam anusha.s@brickworkratings.com **Sameer Singhvi** sameer.s@brickworkratings.com	**Anitha G** media@brickworkratings.com **Relationship Contact** **K N Suvarna** **Director – Business Development** kn.suvarna@brickworkratings.com
Phone: 1-860-425-2742	

Brickwork Ratings (BWR) has adopted SEBI's standardized Rating Symbols and their definition advised vide SEBI circular CIR/MIRSD/4/2011 dated June 15,2011, with effect from June 21, 2011. While there is no change in the Rating symbol as a consequence to the above, for the amended definition of the Rating, please refer to http://www.brickworkratings.com/scale.html. It is clarified that the said change in the definition should not be construed as a change in the Rating.

Annexure – Brief Consolidated Financials

₹ mn	**2010**	**2009**	**2008**
Net Sales	52900	48,021	35,155
Raw Material Costs	29542	24,512	18,146
Staff Expenses	5018	4,794	4,017
Other Operating Costs	10052	10,563	8,088
EBITDA	9,991	9,449	7055
Interest & Finance Charges	1938	2,919	1,688
Depreciation & Amortisation	2147	1,927	1,522
PAT	5,168	4,651	2,589
Equity capital	*879*	*879*	*439*
Share Warrants	-	*853*	*853*
Reserves	*29039*	*24,998*	*21,087*
Less: Intangible Assets	*5383*	*5,333*	*5,136*
Networth *	24535	21,396	17,244
Loan Funds	23818	20,665	15,683
Net Fixed Assets	9824	9,105	6,665
CWIP	406	1,239	1,418
Investments	7612	4,332	7,429
Current Assets	43242	41,173	28,718
Current Liabilities	146164	16,259	13,473

* includes product registrations aggregating ₹ 2,516 mn in FY10, ₹ 2816 mn in FY09 and ₹ 2753 mn in FY08.

Note: Net Fixed Assets excludes Goodwill.