# Zuari Industries Limited

August 06, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 661.64<br>(Enhanced from 400.64) | CARE BBB-; Stable | Reaffirmed |
| Short-term bank facilities | 5.85<br>(Reduced from 14.00) | CARE A3 | Reaffirmed |
| Long-term bank facilities | - | - | Withdrawn# |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

CARE Ratings has reaffirmed the long term and short-term ratings of Zuari industries Ltd and has also withdrawn the outstanding rating on external commercial borrowing as company has fully paid the rated external commercial borrowing. The rating reaffirmed to bank facilities of Zuari Industries Limited (ZIL) considers the strong presence of the Adventz group –across business verticals including the group's presence in the sugar industry (through erstwhile Gobind Sugar Mills Limited (GSML), now merged with ZIL) for over seven decades with integrated sugar business operations with forward integration in co-generation and distillery. ZIL also gets regular dividend and interest income from the quoted investments held and deposits extended to group companies, it also accrues certain income through real estate business and monetisation of its land banks resulting in diversified revenue streams. Ratings also factor in expected improvement in operations of sugar, power, and ethanol division (SPE) backed by envisaged improvement in drawl rate by increasing cane acreage and augmented distillery capacity, which is further aided by supportive government's policies and their thrust on ethanol blending program (EBP). Ratings also consider the group's financial flexibility emanating from market value of investments in companies with stable financial risk profile. The Adventz group is in the process of monetising part of its land parcels held under ZIL and its associates in the medium term, which shall be utilised to de-leverage ZIL and this remains a key rating monitorable.

These strengths are partially offset by high level of debt with significant debt repayments backed by pledge of high market value non-current investments, which act as a mitigant, modest debt coverage indicators, working capital intensive operations, operations vulnerable to agro-climatic conditions and inherent cyclicity and regulated nature of the sugar industry.

## Rating sensitivities: Factors likely to lead to rating actions

**Positive factors**

- Significantly reducing debt levels leading to improving debt coverage indicators such as interest coverage ratio (profit before interest, lease rentals, depreciation, and taxation [PBILDT] to interest) over 2x on sustained basis.
- Improving liquidity and cash flow from operations on a sustained basis and prudent management of cane dues.

**Negative factors**

- Inability in de-leveraging or improving liquidity and interest coverage of below 1.2x on sustained basis.
- Regulatory changes potentially creating material impact to the company's performance on a sustained basis
- Investments in listed securities to total debt falling below 2x.

**Analytical approach:** Standalone

**Outlook:** Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that ZIL will be able to sustain its operational and financial risk profile in the medium term and is also expected to maintain its financial flexibility as the holding company of the Adventz group.

## Detailed description of key rating drivers:

### Key strengths

**Diversified business conglomerate with experienced management and diversified income stream**

The Adventz group operates businesses across four major business verticals: agri-business, engineering & infrastructure, emerging lifestyle, and services, while ZIL has its presence in SPE division and real estate. ZIL is the holding company of the group and apart from having financial investments into the group's operating entities, it also has SPE and real estate segment under ZIL. ZIL's income stream is diversified, earning income through SPE division and regular dividend and interest income as

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

the holding company of the group and certain income accruing through real estate business and monetisation of its land banks. Interest income gets accrued against support extended by ZIL to its group entities and dividend income against its quoted investments.

Segment wise revenue of ZIL (Standalone) is presented below: (₹ crore)

| Particular | | FY23 (A) | FY24 (A) |
|---|---|---|---|
| Sugar | | 548.89 | 408.79 |
| Power | | 32.09 | 26.55 |
| Ethanol | | 169.93 | 162.69 |
| Sale of Land- Real Estate division | | 38.04 | 105.97 |
| Real Estate Project | | 19.34 | 8.06 |
| Interest income | | 82.14 | 61.06 |
| Dividend income | | 45.66 | 45.56 |
| Profit on land sale classified as PPE/ Invt. Property | | - | 70.62 |
| Other | | - | 11.56 |
| **Total** | | **936.09** | **900.86** |

The Adventz Group is promoted by Saroj Kumar Poddar (Chairman and Director), who is best known for introducing men's shaving brand Gillette, French furniture maker brand Gautier and Duracell batteries to the Indian market. Late KK Birla bequeathed the fertilizer business and sugar business to Poddar and his wife Jyotsna Poddar (Director, daughter of KK Birla). He subsequently ramped up business by acquiring Mangalore Chemicals and Fertilizers Limited (CARE A- (RWD); Stable/ CARE A2+ (RWD)) from Vijay Mallya. Poddar also chairs Paradeep Phosphates Limited, Texmaco Rail & Engineering Limited (CARE A- (RWP); Stable/ CARE A2+ (RWP)) and Texmaco Infrastructure Holdings Limited (CARE BBB+; Stable). All companies under the group are professionally managed. With the company's focus on deleveraging its balance sheet at standalone and consolidated levels, financial flexibility of ZIL and its promoters would remain a key credit risk perspective.

**Stable performance of SPE division with further improvement expected**

ZIL's SPE division underwent a massive transformation over s from being a standalone sugar factory, which was exposed to vagaries and cyclicality of sugar business to a fully integrated sugar mill. The company is forward integrated to cogeneration and distillery operations that de-risks the core sugar business to some extent. Revenue from sugar segment declined by 25.52% y-o-y in FY24 considering ban on exports of sugar. However, realisation of sugar increased in FY24, which led to improving profitability margins in the SPE segment. In FY24, the company crushed 141.30 lakh quintals (against 133.39 lakh quintals in FY23) of sugar cane achieving sugar recovery rate of 10.41% (against 9.85% in the previous fiscal). In FY24, the company's distillery plant produced 239.56 lakh litres of ethanol (against 265.02 lakh litres in FY23) whereas the cogeneration unit produced 115.18 million units of power and exported 82.95 million units to the Uttar Pradesh Power Corporation Limited (UPPCL). The company paid off all its cane dues by July, majorly through inventory liquidation and its benefit on the company's operating cycle is expected to be reflected in the following year. The company's ability to turnaround performance of its sugar segment would remain a key monitorable.

**Focus on reducing interest burden and deleveraging plans across the group through asset monetisation**

ZIL and its associates own around 1,000 acres of land and is in progress to monetise part of its land parcels, which would potentially help deleveraging the group. The company has been earning income from selling of its land bank under real estate segment and held as fixed assets. To speed up land monetisation, ZIL is trying to do a bulk deal for a entire land with a single party. The group has around 630 acres of landbank in South Goa held through ZIL and Zuari Agro Chemicals Limited and monetisation of the land parcel in at advanced stages. In FY24, the company has sold 102 acres of land and has realised revenue of ~₹175 crore, which was used to pay the company's debt. The company is further planning to monetise their 260 acres of land. Monetisation of these land parcels and consequent repayments of debt will remains a key rating monitorable.

**Substantial amount of equity investment – acting as a safety net**

ZIL has an investment portfolio of ₹2,556 crore as on March 31, 2024 (PY: ₹2,043 crore) comprising investments in group companies and a portfolio of quoted investments. Of the total investments, value of quoted investments as on March 31, 2024, stood at ₹2,358 crore, increased from ₹1,798 crore as on March 31, 2023, mainly considering favourable movement in share prices. The portfolio predominantly comprises shares of Chambal Fertilizers and Chemicals Limited (CFCL), market value of which, stood at ₹1,948.20 crore as on March 31, 2024. A significant part of these investments and certain land parcels have been pledged against debt taken by the company in its books or even subsidiaries and against loans, where corporate guarantee has been extended. The unpledged value of liquid investments in quoted shares is valued at around ₹581.09 crore as on July 22, 2024, which acts as a safety net for the company and provides adequate cushion.

**History of refinancing debt at lower interest rates**

The company has a track record of refinancing its debt and is currently focusing on refinancing its higher cost debt with debt having better interest rates. In Q2FY24, ZIL refinanced two of its loans or non-convertible debentures (NCDs), BlackRock NCDs (effective interest rate: 19.02%) and Netherlandse Financierings Maatschappij Voor Ontwikkelingsladen N.V. (FMO) (effective interest rate: around 12%), by IIFL and Axis Finance Limited at a lower effective interest rate of 11.45%- 11.79% which has resulted in reducing financing the company's cost from ₹157.82 crore in FY23 to ₹134.82 crore in FY24. The high-cost debt was secured against shares of CFCL and ZACL, with a share cover of 2x-2.5x, which is now replaced by 1.25x share cover (CFCL) and 1.25x land cover. Repayments for BlackRock up to 25% was due in March 2024 and balance is due in October 2024, which reflects that the company has been able to refinance it much ahead of the repayment schedule. The company also refinanced ₹50.00 crore loan from STCI Finance Limited (effective interest rate of 11.75%) by Navuma in Q1FY25 at lower interest rates of 10.50%. Of the ₹50 crore of STCI Finance limited, ₹40 crore is refinanced from Navuma and balance is paid through internal accruals.

**Positive industry outlook by virtue of supportive government policies**

Sugar sector is witnessing tailwinds from higher sugar prices and healthy ethanol demand (to achieve blending targets). The government of India has taken multiple measures in the last couple of years to check fall in sugar prices, improve cash flows of millers and aid them to clear cane dues. Measures include fixed minimum selling price of sugar and a regulated monthly release mechanism that have led to a recovery in sugar prices. Introducing MSP and a rational increase in cane prices in the last few years has helped to reduce the volatility in cane arrears that were a common phenomenon earlier. To increase the ethanol blend level with petrol to 20% by 2025 (advanced from 2030), the government continues to incentivize ethanol by providing soft loans at subsidized interest rates for setting up or expanding distillery capacities, in addition to an increase in the procurement prices. With the sugar inventories getting rationalized, demand supply balance evening out and considerable increase in ethanol sales, the cash flows of integrated sugar mills is going to enhance. ZIL is also aiming to divert its sugar syrup for production of ethanol, which is cash lucrative. With increased ethanol capacities & stable sugar prices, the industry outlook remains stable over medium term.

**Liquidity: Adequate**

The company has adequate liquidity with free cash and bank balances of ₹6.39 Cr as on March 31, 2024 and unpledged liquid securities of ~₹392 crore as on March 31, 2024 which further increased to ~₹581 crore as on July 22, 2024. Further, ZIL is also in process of monetising its land parcel which will result in additional cash inflows. Average utilisation of the company's fund-based limits stood at ~65% in 12-months ended June 2024.

The company does not have debt funded capex plans in the near future and internal generation is expected to be sufficient to meet routine capex requirement and debt repayment obligations. the company has a track record to refinancing its debt successfully well-before its scheduled repayment. Being part of the Adventz group, a large conglomerate, provides cushion to the liquidity due to available financial flexibility. However, the company plans to take further debt of ~₹202 crore in its joint venture (JV), Zuari Envien Bioenergy Private Limited to establish a grain-based ethanol plant, for which, ZIL has extended the corporate guarantee in FY24. Delays in project off-take will remain a key monitorable.

**Key weaknesses**

**Significantly high debt levels**

To support operations of its subsidiaries and associates, ZIL raised significant debt and debt for its SPE division, which resulted in overall borrowings of ₹1,194.77 crore as of March 31, 2024 (including corporate guarantees, PY: ₹1,497.41 crore), which has led to substantial debt repayment obligations to the tune of ~₹160 crore in FY25. However, the company plans to take further debt of ~₹202 crore in its JV, Zuari Envien Bioenergy Private Limited, for which, ZIL has extended corporate guarantee. Loans raised in the holding company (ZIL) have been extended to its downstream group entities in the form of loans and advances. The company has outstanding loans and advances of around ₹362.33 crore as on March 31, 2024, extended to related parties. ZIL incurred huge finance cost of ₹134.82 crore in FY24. However, the strong market value of investments held by the company has enabled it to refinance its high-cost debt at relatively lower rates, reducing its finance cost in the last two years. The company's ability to de-leverage against the maintenance of investment or refinance the debt at lower interest cost will remain key credit monitorable.

**Elongated operating cycle due to seasonality**

The sugar industry being seasonal has high working capital requirements in the peak season, which is from November to April. The companies have high working capital requirements in the peak season to procure their primary raw material, , sugarcane and manufacture sugar in this period. ZIL's inventory holding period is high (316 days as on March 31, 2024, as against 275 days as on March 31, 2023) considering substantial real estate inventory but this has deteriorated from the last year considering higher sugar inventory as at year end mainly due to government ban on export of sugar. However, land bank inventory reduced considering substantial land monetisation in the year. The company's operating cycle stood elongated at 215 days in FY24, moderated from 170 days in FY23 considering increase in inventory holding days. Collection period remains stable and comfortable at about 18 days (PY: 17 days). Creditors' days have reduced from 122 days as on March 31, 2023, to 119 days as on March 31, 2024, considering reduced cane dues. As on July 22, 2024, the company has paid all its outstanding cane due majorly through inventory liquidation. Per the management, the company will be starting this season with zero cane outstanding dues, benefits received from it will be a key monitorable for the following fiscal year.

**Cyclical and regulated sugar business**

The industry is cyclical and vulnerable to government policies for reasons such as its importance in the Wholesale Price Index (WPI) as it is classified as an essential commodity. On its part, the government resorts to regulations such as fixing raw material prices as state advised prices (SAP) and fair and remunerative prices (FRP). All these factors impact cultivation patterns of sugarcane in the country, affecting profitability of sugar companies. ZIL's profitability, along with other Uttar Pradesh / Uttarakhand-based sugar mills, continues to remain vulnerable to the state government's policy on cane prices. The company's performance can be impacted by disproportionate increase in cane price in a particular year. Profitability remains vulnerable to the Government's policies on exports, MSP and remunerative ethanol prices. Cyclicality in sugar production results in volatile sugar prices. However, sharp contraction in sugar prices is curtailed after introducing MSP by the Central Government in June 2018. Healthy exports and higher diversion of sucrose towards ethanol in the recent years resulted in favourable demand-supply dynamics in the country, resulting in improved realisations currently. In the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice by the industry is expected to help in curtailing the excess supply of sugar, resulting in lower volatility in sugar prices and cash flows from the sugar business.

**Industry risk of downstream companies**

The company is exposed to inherent risks pertaining to its subsidiaries and associates primarily in agro-chemicals, commodities, real estate, engineering, and infrastructure. Long-gestation infrastructure projects and dependence on government for approvals exposes the company to financial burden and related project delay cost. The commodity business exposes the group to unpredictable climatic conditions affecting revenues and profitability.

## Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Sugar
Financial Ratios – Non financial Sector
Withdrawal Policy
Rating methodology for Real estate sector
Short Term Instruments

## About the company and industry

## Industry classification

| Macro-economic indicator | Sector | Industry | Basic industry |
|---|---|---|---|
| Fast moving consumer goods | Fast moving consumer goods | Agricultural food & other products | Sugar |

ZIL is a publicly listed company and holding company of Saroj Kumar Poddar (son-in-law of Late KK Birla) led the Adventz Group, a diversified conglomerate of 26 companies having diversified operations across four major industry verticals- Agriculture, Engineering & Infra, Lifestyle & Real Estate and Services. In its capacity as holding company, ZIL principally earned interest income from loans and advances extended to group companies, dividend income from the large portfolio of investments it held and income from its real estate project (Zuari Rain Forest Phase-1, Goa). Post April 30, 2022, Gobind Sugar Mill (GSM), one of the oldest sugar mills in Uttar Pradesh, with nearly 75 years of operations merged with ZIL. ZIL broadened to add the SPE division post-merger with a cane crushing capacity of 10,000 TCD, an ethanol distillery of 125 KLPD and a cogeneration plant of 40 MW. ZIL has also extended corporate guarantees to several subsidiaries to support their operations.

| Brief Financials (₹ crore) | FY23 (A)* | FY24 (A) | Q1FY25 (UA) |
|---|---|---|---|
| Total operating income | 944.63 | 897.34 | NA |
| PBILDT | 190.55 | 262.78 | NA |
| PAT | 5.38 | 22.66 | NA |
| Overall gearing (times) | 0.58 | 0.39 | NA |
| Interest coverage (times) | 1.21 | 1.95 | NA |

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results
*FY 23 Numbers are reinstated considering merger of Zuari Sugar & Power limited with Zuari Industries Limited on April 30, 2024

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated**: Annexure-4

**Lender details**: Annexure-5

## Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-External Commercial Borrowings | | - | - | 31/12/2026 | 0.00 | Withdrawn |
| Fund-based - LT-Term Loan | | - | - | 31/03/2029 | 381.64 | CARE BBB-; Stable |
| Fund-based - LT-Working Capital Limits | | - | - | - | 280.00 | CARE BBB-; Stable |
| Fund-based-Long Term | - | - | - | - | 0.00 | Withdrawn |
| Non-fund-based - ST-Bank Guarantee | | - | - | - | 2.50 | CARE A3 |
| Non-fund-based - ST-Credit Exposure Limit | | - | - | - | 3.35 | CARE A3 |

## Annexure-2: Rating history for last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2024-2025 | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 |
| 1 | Debentures-Non-convertible debentures | LT | - | - | - | - | - | 1)Withdrawn (24-Jun-21) |
| 2 | Debentures-Non-convertible debentures | LT | - | - | - | - | - | 1)Withdrawn (24-Jun-21) |
| 3 | Un Supported Rating | LT | - | - | - | - | - | 1)Withdrawn (24-Jun-21) |
| 4 | Fund-based - LT-Term Loan | LT | 381.64 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (25-Oct-23) | 1)CARE BBB-; Stable (20-Sep-22) | - |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 5 | Fund-based - LT-External Commercial Borrowings | LT | - | - | - | 1)CARE BBB-; Stable (25-Oct-23) | 1)CARE BBB-; Stable (20-Sep-22) | - |
| 6 | Fund-based - LT-Working Capital Limits | LT | 280.00 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (25-Oct-23) | 1)CARE BBB-; Stable (20-Sep-22) | - |
| 7 | Non-fund-based - ST-Bank Guarantee | ST | 2.50 | CARE A3 | - | 1)CARE A3 (25-Oct-23) | 1)CARE A3 (20-Sep-22) | - |
| 8 | Non-fund-based - ST-Credit Exposure Limit | ST | 3.35 | CARE A3 | - | 1)CARE A3 (25-Oct-23) | 1)CARE A3 (20-Sep-22) | - |
| 9 | Fund-based-Long Term | LT | - | - | - | 1)CARE BBB-; Stable (25-Oct-23) | 1)CARE BBB-; Stable (20-Sep-22) | - |

LT: Long term; ST: Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of instruments rated**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Fund-based - LT-External Commercial Borrowings | Simple |
| 2 | Fund-based - LT-Term Loan | Simple |
| 3 | Fund-based - LT-Working Capital Limits | Simple |
| 4 | Fund-based-Long Term | Simple |
| 5 | Non-fund-based - ST-Bank Guarantee | Simple |
| 6 | Non-fund-based - ST-Credit Exposure Limit | Simple |

**Annexure-5: Lender details**

| |
|---|
| To view lender-wise details of bank facilities please click here |

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

**Contact us**



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**About us:**

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



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