

Zuari Global Limited

October 06, 2020

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Non-Convertible Debentures - Zorro – I	197.00	CARE BB (CE)* (Under Credit Watch with Developing Implications) (Double B (Credit Enhancement)) (Under Credit Watch with Developing Implications)	Revised from CARE BB (CE)* (Under Credit Watch with Negative Implications) (Double B (Credit Enhancement)) (Under Credit Watch with Negative Implications)
Non-Convertible Debentures - Zorro – II	118.00**	CARE BB (CE)* (Under Credit Watch with Developing Implications) (Double B (Credit Enhancement)) (Under Credit Watch with Developing Implications)	Revised from CARE BB (CE)* (Under Credit Watch with Negative Implications) (Double B (Credit Enhancement)) (Under Credit Watch with Negative Implications)
Total Facilities	315.00 (Rupees Three Hundred Fifteen crore only)		

*The ratings factors in credit enhancement in the form of a trustee-administered structured payment mechanism backed by the security of first and exclusive pledge of shares of Gillette India Limited (Gillette, held by Adventz Finance Private Limited (AFPL)) and Chambal Chemicals and Fertilizers Limited (CFCL, held by Zuari Global Limited and its subsidiaries) to provide the minimum aggregate security cover of 2.5 times with shares of GIL to contribute security cover of at least 2.0 times of the issue size till the redemption of NCDs.

**out of which Rs. 113.00 crore was subscribed on December 3, 2019

Unsupported Rating ²	CARE BB (Double B)
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Detailed Rationale & Key Rating Drivers

The above ratings for the non-convertible debenture (NCD) issues of Zuari Global Limited (ZGL) are based on the credit enhancement in the form of a trustee-administered structured payment mechanism backed by the security of first and exclusive pledge of shares of Gillette India Limited (Gillette, held by Adventz Finance Private Limited (AFPL)) and Chambal Chemicals and Fertilizers Limited (CFCL, held by Zuari Global Limited and its subsidiaries) to provide the minimum aggregate security cover of 2.5 times with Gillette shares to contribute security cover of at least 2.0 times of the issue size till the redemption of NCDs.

The rating assigned to the NCD issues of ZGL aggregating Rs. 315 crore were in March 2020 placed on credit watch with negative implications following the decline in share price of pledged shares for raising NCD Issues and low proportion of unencumbered shares available with the company to maintain aggregate collateral cover with collateral top-up mechanism resulting in occurrence of event of default (EOD). The ratings are now being placed on credit watch with developing implications on account of recovery in the share prices of the underlying entities (i.e., GIL and CFCL) pledged for raising NCD issues and subsequent restoration of the minimum aggregate security cover required for the issues. The proportion of the unencumbered shares available with ZGL to maintain the aggregate security cover in case of any volatility observed in the share prices of the underlying entities however continues to remain low. ZGL, although, currently is in the process of pledging additional shares of GIL available with one of its promoter company. Further, there is a proposed Scheme of Amalgamation between ZGL and Gobind Sugar Mills Limited (GSML) which is also factored in while continuing the ratings on credit watch.

CARE will continue to monitor the developments in both the scenarios and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

The ratings assigned to the NCD issues of ZGL continues to be constrained on account of liquidity risk associated with the low traded volumes of shares of GIL and moderate operating cash flows of ZGL for servicing of NCD coupons and principal repayment obligations of NCD issues. The ratings, however, factor in the robust credit profile and low volatility in the share prices of the underlying entities.

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

² As stipulated vide SEBI circular no SEBI/HO/MIRSD/DOS3/CIR/P/2019/70 dated June 13, 2019. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).

The unsupported rating of the NCD issues considers the standalone business and financial risk profile of ZGL. The rating also takes into account the company's status as the holding company of well-established and diversified Adventz Group, its investment profile and asset quality. Ability of ZGL to enhance its financial flexibility with the improvement in the market valuation from the holding of the shares in the group companies and limit the support extended to group companies shall remain the key rating sensitivities going forward.

Transaction Summary

NCD issues of size Rs.310 crore for the tenure of 3 years and bearing a coupon rate of 8% p.a. payable quarterly and 3.735% p.a. compounded quarterly and for Issue of Rs. 197 crore bearing a coupon rate of 8% p.a. payable quarterly and 3.277% p.a. compounded quarterly and payable on maturity for issue of Rs. 113 crore; is backed by pledge of shares of GIL and CFCL providing security cover of 2.50 times the issue size with GIL providing cover of at least 2.00 times till the redemption dates. The pledge of shares of GIL is provided by one of the group companies namely AFPL and the shares of CFCL are provided by ZGL and its subsidiaries.

The company shall redeem each debenture in full by paying the accrued amount and all other amounts payable in respect thereof on the redemption date and the Company shall be required to deposit an amount equal to the accrued amount and all other amounts payable in to the Cash Top Up Account, at least 5 Business Days prior to the Redemption Date (T-5 day). In addition to this, the company shall provide security top up in case of fall in prices of the underlying entities by 5 p.m. of T+2 day to maintain aggregate security cover. Failure to do so will lead to an event of default.

Key Rating Sensitivities

Positive Factors

- Execution of any agreement with the promoter companies for acquisition of GIL and CFCL shares to enhance the proportion of unpledged shares of the underlying entities to facilitate the share top up collateral.
- Substantial improvement in the market prices of investments.
- Equity infusion in ZGL to facilitate the cash top up required in maintaining the aggregate security cover required in case of volatility witnessed in stock prices of the underlying entities.

Negative Factors

- Decline in market price of shares of the underlying entities and subsequent shortfall in the security cover requirement.
- Substantial increase in total debt availed and further support given to group companies adversely impacting the capital structure with the overall gearing exceeding 1x on a sustained basis going forward.
- Non-adherence to the structure by any of the parties to the transaction.

Detailed description of the key rating drivers

Key Rating Weaknesses

Market risk and Low proportion of unencumbered pledged shares along with collateral top-up mechanism which can enable it to maintain aggregate collateral cover

There is a top up of shares clause in the term sheet according to which first two top ups shall be in the form of share top up and post that only cash top up shall be allowed in case of decline in share price and fall in aggregate security cover from 2.50 times (and security cover from shares of GIL from 2.00 times).

ZGL held 14.18% stake in CFCL as on June 30, 2020. Out of this, 48,462,028 (82.11% of ZGL holding) of shares held by the ZGL are pledged as on the current date. ZGL (along with its subsidiaries) has pledged total 52,00,000 shares of CFCL for providing adequate cover for the issue of NCD in July and December 2019. The last pledge was on March 12, 2020 for 6,00,000 lakh shares. Thus, the proportion of the unencumbered shares (of CFCL held by ZGL) remains very low in view of providing any cushion in case of volatility is witnessed in the share price of CFCL. Further, AFPL held around 3.40% of stake in GIL as on June 30, 2020. However, AFPL has pledged its entire shareholding in GIL with the pledge of 7,90,000 shares of GIL on July 12, 2019 for raising the issue of Rs. 197 crore and remaining 3,19,104 shares was pledged on December 3, 2019 for raising the issue of Rs. 113 crore. ZGL is still having unpledged 5,16,038 shares of GIL with their promoter company- Globalware Trading and Holdings Limited (holding 25.45% stake in ZGL as on June 30, 2020) having market price of Rs. 260.56 crore as on September 15, 2020 for providing additional cover. However, the company is still in process for having the legal agreement with Globalware Trading and Holdings Limited for pledging the shares and simultaneously pledging the GIL shares. The unencumbered shares provides cushion in case of a fall in market price of the underlying shares and proportion of which to total issued shares is low.

Further, due to market volatility witnessed in the share prices of the underlying entities and insufficient liquidity available with the company (in the form of unpledged shares or free cash) for providing top ups to maintain the required security cover, trigger for Event of Default (EOD) has occurred during March 2020. However, debentures holders did not call upon EOD as company was working on pledging additional shares which they were not able to do timely due to disruptions caused by COVID-19 induced lockdown. Subsequently, with the recovery in the share prices of the underlying entities, the

required aggregate security cover was restored. Therefore, any decline in market price or any further pledge of the underlying securities will be a key rating monitorable.

Moderate operating cash flows of ZGL for debt servicing of the rated facility

On account of its moderate operating cash flows, ZGL is dependent on timely payments from Zuari Agro Chemicals Limited (ZACL) to service its NCD coupon payments and principal obligations. The current financial risk and liquidity profile of ZACL is moderate and thus there exists a possibility of liquidation of the pledged shares to meet the debt servicing obligations on this facility. However, ZGL is expecting the recoupment of the loans and advances made to ZACL in order to timely service the debt obligations arising out of the NCD issues. ZACL is in process of raising funds by monetization of its assets and has entered into certain transactions which are subject to statutory approvals. The sale of these assets and the resultant fund raising will help ZACL to deleverage its balance sheet and is also a key monitorable going forward.

Adequate Liquidity

The liquidity position in such a trustee administered structure payment mechanism, which is backed by the security cover of first and exclusive pledge of shares of the underlying entities, i.e., GIL and CFCL to provide adequate security cover for the raised debt, is derived from the average daily traded volume of shares of the underlying entities and days required to liquidate the shares. The average daily traded volume for the last one year of underlying entities (especially of GIL) is at low levels, therefore the liquidity risk in terms of availability of conducive market to absorb the shares being offered for sale or ability of the issuer to arrange for an investor in shares for a bulk/block deal in a timely manner is the key rating concern.

Key Rating Strengths

Exclusive pledge of unencumbered shares of CFCL and GIL with sufficient security cover

The entire NCD issues of ZGL of Rs. 310 crore is secured by first ranking exclusive pledge over shares of CFCL held by ZGL and its subsidiaries and the shares of GIL held by AFPL (group company). The market value of pledged shares should be equivalent to an amount that is sufficient to maintain a cover at all times of not less than 2.5 times of the facility amount with shares of GIL to contribute at least 2.0 times of the facility amount.

Robust credit profile of the underlying entities (i.e., CFCL and GIL)

The credit profile of the underlying entities, i.e., CFCL and GIL is comfortable. GIL, formerly known as Indian Shaving Products Limited, was incorporated 1984 and is one of the leading fast-moving consumer goods (FMCG) companies in its segment in India, that deals in the world leading brands like GILLETTE and ORAL-B. The company's principal activity is to manufacture and market consumer products. Its manufacturing facilities are located at Bhiwadi in Rajasthan and Baddi in Himachal Pradesh. GIL operates in two segments namely personal grooming and oral care. The former includes blades, razors and toiletries, while the latter includes toothbrushes and oral care products. GIL's total operating income stood at Rs. 1,690.48 crore (for the year ended June 30, 2020) having a PBILDT Margin of 21.91% with the comfortable capital structure with zero debt and strong tangible net worth of Rs. 911.28 crore as on June 30, 2020.

CFCL is one of the largest private sector fertilizer producers in India. It was promoted by Zuari Industries Limited in the year 1985. Its two hi-tech nitrogenous fertiliser (urea) plants are located at Gadepan in Kota district of Rajasthan. The two plants produce ~3 million tonnes (MT) of urea per annum (1.27 MT of urea unit at Gadepan-III commissioned in January 2019). The first plant was commissioned in 1993 and second plant in 1999. CFCL caters to the need of the farmers in twelve states in northern, eastern, central and western regions of India and is the lead fertiliser supplier in Rajasthan. The company has a vast marketing network comprising 15 regional offices, 2,000 dealers and 20,000 village level outlets. CFCL's total operating income stood at Rs. 12,267.92 crore (for the year ended March 31, 2020) having a PBILDT Margin of 16.54%.

Analytical Approach: The approach followed to arrive at the rating is by considering credit enhancement in the form of trustee administered structure payment mechanism backed by the security cover of first and exclusive pledge of shares of CFCL and GIL to provide adequate security cover.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Financial Ratios - Non-Financial Sector](#)

[Rating Methodology- Consolidation and Factoring Linkages in Ratings](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

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

[Rating of loans by investment holding companies](#)

[Criteria for Rating Credit Enhanced Debt](#)

About the Company

Zuari Global Limited (ZGL), erstwhile Zuari Industries Limited, is a public limited company incorporated under the Companies Act, 1956 and is the holding company of well-established and diversified Adventz Group. ZGL in its capacity as holding company has a large portfolio of subsidiaries and associates and predominantly concentrates on investment in the group companies & is engaged in real estate development. The group (as renamed to Adventz Group of Companies) is now led by Mr. Saroj Kumar Poddar (Son in law of Mr. K.K Birla, husband of Jyotsna Poddar) and is comprised of 23 companies in various verticals and has significant presence in agriculture, engineering & infrastructure, real estate, consumer durables and services. Mr. Poddar is the Chairman of ZACL, ZGL, CFCL, Paradeep Phosphates Limited, Texmaco Infrastructure & Holdings Limited and Texmaco Rail & Engineering Limited.

ZGL, on a standalone basis, derives majority of its income from Interest on loans & advances given to its group companies & dividend income from the large portfolio of investments that it holds & also from its real estate project under development. ZGL being the principal promoter entity has also extended corporate guarantees for many of the group companies to support their operations.

The Board of Directors has approved a proposed Scheme of Amalgamation between ZGL and GSML. GSML is engaged in the business of manufacture/generation and sale of sugar, molasses, press mud, power and ethanol. The merger is expected to streamline and rationalize group structure. The appointed date of amalgamation as per scheme is April 1, 2020.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	30.66	145.43
PBILDT	32.39	97.62
PAT	40.28	12.92
Overall gearing (times)*	0.65	1.17
Interest coverage (times)	4.02	2.23

*After considering corporate guarantees issued by ZGL for group companies as a part of debt

A: Audited

Terms of the transaction

Issuer	Zuari Global Limited
Promoter Group	Adventz Group
Listed Cos.	Gillette India Limited ("GIL") and Chambal Fertilisers and Chemicals Limited ("CFCL")
Pledgors	<ul style="list-style-type: none"> ▪ For GIL Shares: Adventz Finance Private Limited ▪ For CFCL Shares: Zuari Global Limited (and its subsidiaries)
Facility Type	INR denominated Rated, Listed Non-Convertible Debentures ("NCDs")
Facility Amount	Rs. 315 crore divided as below: NCD Facility of July 15, 2019 (Zorro I): Rs. 197 crore NCD Facility of December 3, 2019 (ZORRO II): Rs. 118 crore (out of which Rs. 113 cr is raised)
Tenure	3 years bullet repayments
Use of proceeds	For payment to subscribe to Compulsorily Convertible Debentures (CCDs) being issued by Zuari Agro Chemicals Limited (ZACL) for general corporate purposes and payment of fees and expenses related to facility.
Security	<p>First ranking exclusive pledge over shares of Listed Cos. of atleast 2.5x of Facility Amount ("Total Collateral Cover") with GIL shares to contribute to atleast 2.0x of Facility Amount ("GILL Collateral Cover") on a combined basis between Zorro I and Zorro II at inception</p> <p>a) Subject to point b below, if at any time during the tenor of the Facility, the Total Collateral Cover falls below 2.5x and/or GIL Collateral Cover falls below 2.0x, Pledgor to pledge additional shares of Listed Cos. or deposit cash in the cash top-up account (to be charged with the Lender) such that the Total Collateral Cover is restored to atleast 2.5x and GIL Collateral Cover is restored to atleast 2.0x. Subject to point b below, no restriction on number of share top ups</p> <p>b) Shares being pledged for GILL Collateral Cover at inception and at any GILL Collateral cover top up event to be made only from the existing Gillette shares held by Adventz Finance Private Limited. Post that in any case of any GILL collateral cover top up event, cash top up of atleast 0.2x of facility amount to be made in the cash top up account (to be charged with the lender) to restore GILL Collateral cover to above 2.0x.</p>

Mandatory Prepayment	<ul style="list-style-type: none"> ▪ Fall in share price of any of the Listed Cos. by 35% or more since inception and/or fall in share price of any of the Listed Cos. by 19.9% or more in a single trading day ▪ Suspension of trading / delisting of shares of Listed Companies
Undertaking and Covenants	<ul style="list-style-type: none"> ▪ Adventz Group to continue to hold the current shareholding in GIL and in CFCL ▪ Adventz Group to continue to hold 51% in the Issuer ▪ Zorro I and Zorro II facility shall have a common security and a common security trustee
Events of Default	<p>Customary to financings of this nature to be applicable in case of events pertaining to Borrower/ Issuer, Listed Cos. including but not limited to non-payment, illegality, cross default (carve out for certain group companies which are in default/ dependent on government subsidies)</p> <p>Failure in providing security top up in case of fall in prices of underlying company by 5 p.m. of T+2 day to maintain aggregate security cover</p>

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE217A07043	July 15, 2019	8.0% p.a. payable quarterly and 3.735% p.a. compounded quarterly and payable on maturity	July 15, 2022	197.00	CARE BB (CE) (Under Credit watch with Developing Implications)
Debentures-Non Convertible Debentures	INE217A07050	December 03, 2019	8.0% p.a. payable quarterly and 3.277% p.a. compounded quarterly and payable on maturity	December 5, 2022	118.00*	CARE BB (CE) (Under Credit watch with Developing Implications)
Un Supported Rating		-	-	-	0.00	CARE BB

*out of which Rs. 113 crore was allotted on December 3, 2019

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	197.00	CARE BB (CE) (Under Credit watch with Developing Implications)	-	1)CARE BB (CE) (Under Credit watch with Negative Implications) (31-Mar-20) 2)CARE BB (CE) (Under Credit watch with Negative Implications) (20-Mar-20) 3)CARE BB (CE); Stable (24-Jul-19) 4)Provisional CARE BB (CE); Stable (12-Jul-19)	-	-
2.	Debentures-Non Convertible Debentures	LT	118.00	CARE BB (CE) (Under Credit watch with Developing Implications)	-	1)CARE BB (CE) (Under Credit watch with Negative Implications) (31-Mar-20) 2)CARE BB (CE) (Under Credit watch with Negative Implications) (20-Mar-20) 3)CARE BB (CE); Stable (16-Dec-19) 4)Provisional CARE BB (CE); Stable (22-Nov-19)	-	-
3.	Un Supported Rating	LT	0.00	CARE BB	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Un Supported Rating	Simple

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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