

## Zuari Global Limited

March 31, 2020

### Ratings

Instrument	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Non-Convertible Debentures - Zorro – I	197.00	<b>CARE BB (CE) (Double B (Credit Enhancement)); Under credit Watch with Negative Implications</b>	<b>Continues to be on Credit watch with Negative Implications</b>
Non-Convertible Debentures - Zorro – II	118.00**	<b>CARE BB (CE) (Double B (Credit Enhancement)); Under credit Watch with Negative Implications</b>	<b>Continues to be on Credit watch with Negative Implications</b>
<b>Total Facilities</b>	<b>315.00 (Rupees Three Hundred Fifteen crore only)</b>		

\*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 (Chambal, held by ZGL) to provide the minimum aggregate security cover of 2.5 times with Gillette shares to contribute security cover of atleast 2.0 times of the issue size till the redemption of NCD.

\*\*out of which Rs. 113.00 crore was subscribed on December 03, 2019

### Detailed Rationale & Key Rating Drivers

The rating assigned to the NCD issues of Zuari Global Limited (ZGL) aggregating Rs. 315 crore continues to be under 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). However, debentures holders have not called upon EOD yet as company is working on pledging additional shares available with its promoter company, which they are not able to do due to current lockdown due to COVID 19.

CARE will continue to monitor the developments in this regard 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 continues to be constrained on account of liquidity risk associated with the low traded volumes of Gillette shares and moderate operating cash flow of ZGL for servicing of NCD coupons and principal repayment obligations of NCD issue.

The ratings, however, factors in the robust credit profile and low volatility in the share price of underlying securities (i.e. Gillette and Chambal).

### Transaction Summary

NCD issue 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 for Issue of Rs. 197 crore and 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 Gillette and Chambal providing security cover of 2.50 times the issue size with Gillette providing cover of atleast 2.00 times till the redemption dates. The pledge of Gillette shares are provided by one of the Group companies namely Adventz Finance Private Limited (AFPL) and the shares of Chambal are provided by the ZGL.

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 it, the company shall provide 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. Failure to do so will lead to an event of default.

### Key Rating Sensitivities

#### Positives

- Timely execution of agreement for pledge of GIL shares held by its promoter company
- Substantial improvement in the market prices of investments

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Negatives**

- Substantial increase in total debt availed and further support given to group companies.
- Non-adherence to the structure by any of the parties to the transaction.

**Key Rating Weaknesses****Market risk and occurrence of trigger of event of default**

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 Gillette shares from 2.00 times).

Further due to recent decline in share price of the underlying securities 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. However, debentures holders have not called upon EOD yet as company is working on pledging additional shares which they are not able to do due to current lockdown. Company is in process of pledging the Gillette shares available with its promoter company by entering an agreement with them for providing adequate cover for the transaction.

Going forward, any significant movement in market price 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 profile of ZACL is moderate and there exists a possibility of liquidation of the pledged shares to meet the debt servicing obligations on this facility.

**Liquidity Risk**

As the average daily traded volume for the last one year of Gillette shares is at low levels, 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 Chambal Fertilisers and chemicals Limited and Gillette India Limited with sufficient security cover**

The entire NCD Issue of Zuari Global Limited (ZGL) of Rs. 315 crore is proposed to be secured by first ranking exclusive pledge over shares of Chambal Fertilisers and Chemicals Limited held by ZGL and the shares of Gillette India Limited (GIL) held by Adventz Finance Private Limited (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 2.50 times of the facility amount with Gillette India Limited shares to contribute atleast 2.00 times of the facility amount.

**Robust credit profile of Gillette and Chambal (underlying securities)**

The credit profile of underlying securities i.e. Chambal and Gillette is comfortable. Gillette India Ltd is the leading FMCG company in its segment in India that deals in some of the world leading brands like GILLETTE and ORAL-B. The company's principal activity is to manufacture and market consumer products. Their manufacturing facilities are located at Bhiwadi in Rajasthan and Baddi in Himachal Pradesh. Company operates in two segments namely Personal Grooming and Oral Care. Personal Grooming segment includes blades razors and toiletries. Oral Care segment includes toothbrushes and oral care products. Gillette India Ltd formerly known as Indian Shaving Products Ltd was incorporated in the year 1984. The total operating Income of Gillette stood at Rs. 1875.25 crore (for the year ended June 30, 2019) having a PBILDT Margin of 20.21% and the capital structure of the company is comfortable with zero total debt and tangible networth of Rs. 778.36 crore as on June 30, 2019.

Chambal Fertilisers and Chemicals Limited 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 about 2 million MT of Urea per annum. The first plant was commissioned in 1993 and second plant in 1999. Chambal Fertilisers 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 the State of Rajasthan. The Company has a vast marketing network comprising 15 regional offices, 2,000 dealers and 20,000 village level outlets. The total operating Income of Chambal stood at Rs. 10260 crore (for the year ended March 31, 2019) having a PBILDT Margin of 12.77%

**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 Chambal Fertilizers and chemicals Limited and Gillette India Limited to provide adequate security cover.

### Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings

CARE's Policy of Default Recognition

Financial ratios – Non-Financial Sector

Rating Methodology- Rating of loans by investment holding companies

Rating Methodology: Consolidation and Factoring Linkages in Ratings

### About the Company

Zuari Global Ltd (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), comprises 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 Zuari Agro Chemicals Limited, Zuari Global Limited, Chambal Fertilisers & Chemicals Limited, 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.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	40.31	43.43
PBILDT	20.41	36.76
PAT	17.96	40.28
Overall gearing (times)*	0.53	0.65
Interest coverage (times)	35.95	3.33

\*After considering Corporate Guarantees Issued by Zuari Global Limited for Group Companies as a part of debt

A: Audited

### Terms of the transaction

<b>Issuer</b>	Zuari Global Limited
<b>Promoter Group</b>	Adventz Group
<b>Listed Cos.</b>	Gillette India Limited ("GIL") and Chambal Fertilisers and Chemicals Limited ("Chambal")
<b>Pledgors</b>	<ul style="list-style-type: none"> <li>▪ For GIL Shares: Adventz Finance Private Limited</li> <li>▪ For Chambal Shares: Zuari Global Limited</li> </ul>
<b>Facility Type</b>	INR denominated Rated, Listed Non-Convertible Debentures ("NCDs")
<b>Facility Amount</b>	INR 315 crore divided as below: NCD Facility of July 15, 2019 (Zorro I): Rs. 197 crore New NCD Facility (ZORRO II): Rs. 118 crore
<b>Tenure</b>	3 years bullet repayments
<b>Use of proceeds</b>	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.
<b>Security</b>	<p>First ranking exclusive pledge over shares of Listed Cos. of at least 2.5x of Facility Amount ("Total Collateral Cover") with GIL shares to contribute to at least 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 at least 2.5x and GIL Collateral Cover is restored to at least 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</p>

	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.
<b>Mandatory Prepayment</b>	<ul style="list-style-type: none"> <li>▪ 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</li> <li>▪ Suspension of trading / delisting of shares of Listed Cos.</li> </ul>
<b>Undertaking and Covenants</b>	<ul style="list-style-type: none"> <li>▪ Adventz Group to continue to hold the current shareholding in GILL and in Chambal</li> <li>▪ Adventz Group to continue to hold 51% in the Issuer</li> <li>▪ Zorro I and Zorro II facility shall have a common security and a common security trustee</li> </ul>
<b>Events of Default</b>	<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
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 14, 2022	197.00	CARE BB (CE); Under credit Watch with Negative Implications
Non Convertible Debentures	INE217A07050	Dec 04, 2019	8.0% p.a. payable quarterly and 3.277% p.a. compounded quarterly and payable on Maturity	Dec 05, 2022	118.00*	CARE BB (CE); Under credit Watch with Negative Implications

\*out of which Rs. 113.00 crore was allotted on December 04, 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	197.00	CARE BB (CE); Under credit Watch with Negative Implications	1) CARE BB (CE) (Under Credit watch with Negative Implications) (20-Mar-20) 2) CARE BB (CE); Stable (24-Jul-19) 3) Provisional	-	-	-

					CARE BB (CE); Stable (12-Jul-19)			
2.	Debentures-Non Convertible Debentures	LT	118.00*	CARE BB (CE); Under credit Watch with Negative Implications	1) CARE BB (CE) (Under Credit watch with Negative Implications) (20-Mar-20) 2) CARE BB (CE); Stable (16-Dec-19) 3) Provisional CARE BB (CE); Stable (22-Nov-19)	-	-	-

\*out of which Rs. 113.00 crore was allotted on December 04, 2019

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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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.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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