

Zuari Global Limited
July 24, 2019

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Non Convertible Debentures	197.00	CARE BB (CE); Stable [Double B (Credit Enhancement); Outlook: Stable]	Final Rating[^]
Total Facilities	197.00 (Rupees One Hundred Ninety Seven crore only)		

[^] Pursuant to receipt of copy of Signed copy of Executed Debenture Trustee Deed between Zuari Global Limited (Issuer of NCD) and Catalyst Trusteeship Limited (Debenture Trustee) and Executed Unattested Pledge Agreement between Adventz finance Private limited (Pledgor 1), Zuari Global Limited (Pledgor 2) and Catalyst Trusteeship Limited (Debenture Trustee).

Detailed Rationale & Key Rating Drivers

The rating assigned to the NCD issue of Zuari Global Limited (ZGL), factors in 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 (Chambal, held by ZGL) to provide the minimum aggregate security cover of 2.5 times of the issue size with Gillette shares to contribute security cover of atleast 2.0 times of the issue size till the redemption of NCD. However, 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 are the key rating constraints.

The structure envisages appointment of trustee on behalf of the NCD holder (Credit Suisse AG, Singapore) to oversee the transaction.

The ratings, also factors in the robust credit profile of underlying securities (i.e. Gillette and Chambal) and availability of adequate number of unpledged shares of underlying securities for top up to maintain the aggregate security cover during the tenure of the proposed instrument.

Non-adherence to the structure by any of the parties to the transaction is the key rating sensitivity.

Transaction Summary

ZGL shall issue the INR denominated Rated, Listed Non Convertible Debentures (NCDs) of size Rs.197 crore for the tenure of 3 years bearing a coupon rate of 8% p.a. payable quarterly and 3.735% p.a. compounded quarterly and payable on maturity. The NCDs to be redeemed to the tune of Rs. 17.00 crore at the end of 2 years and remaining amount of Rs. 180 crore to be redeemed at the end of 3 years.

The NCD issue 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 shall be provided by one of the Group companies namely Adventz Finance Private Limited (AFPL) and the shares of Chambal shall be provided by the ZGL. The proceedings from the NCD Issue will be used to subscribe to the CCD's or make inter-corporate deposits to ZACL, whether directly or indirectly; and to Pay of all outstanding costs, fees and expenses of NCD Issue.

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.

Detailed description of the key rating drivers

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

Key Rating Weaknesses

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.

Market risk and Liquidity Risk

There is a top up of shares clause in the draft 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). Therefore, any decline in market price or any further pledge of the underlying securities will be a key rating monitorable.

Also, 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

Robust credit profile of Gillette and Chambal (underlying securities)

The credit profile of Chambal and Gillette is comfortable and pledged shares provide sufficient cover over tenure of rated instrument.

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. 1689.60 crore (for the year ended June 30, 2018) having a PBILDT Margin of 23.34% and the capital structure of the company is comfortable with zero total debt and tangible networth of Rs. 694.18 crore as on June 30, 2018. The total operating income of the company for the 9month ending March 31, 2019 stood at Rs. 1408.86 crore.

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%

Sufficient number of unpledged shares for top ups

As on March 31, 2019, ZGL held 14.18% stake in CFCL. Out of this, 2, 50, 00, 000 (around 6% of total issued shares and 42.36% of ZGL holding) of shares held by the ZGL are already pledged. The unencumbered shares (of CFCL held by ZGL) after the said transaction is expected to remain around 6.80% of the total issued shares of Chambal and around 52% of the ZGL holding in Chambal (as per the Market price of Chambal shares (Rs. 172.55) as on July 08, 2019) and AFPL held around 3.40% of stake in Gillette with the unencumbered shares (of GIL held by AFPL) after the said transaction is expected to remain about 1.75% of the total issued shares of Gillette and around 51% of the AFPL holding in Gillette (as per the Market price of Gillette shares (Rs. 7308.80) as on July 08, 2019) for the top ups. Therefore, there are adequate numbers of unpledged shares with the holding companies for top up of shares in case of fall in share price.

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

Applicable Criteria

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

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

[Financial Ratios – Non Financial Sector](#)

[Rating Methodology- Rating of loans by holding companies](#)

[CARE's Criteria for 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)	35.47	3.33

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

A: Audited; Prov. Provisional

NCD issues – Terms of the transaction as per the Debenture Trust deed

Issuer	Zuari Global Limited
Promoter Group	Adventz Group
Listed Cos.	Gillette India Limited (“GIL”) and Chambal Fertilisers and Chemicals Limited (“Chambal”)
Pledgors	<ul style="list-style-type: none"> ▪ For GIL Shares: Adventz Finance Private Limited ▪ For Chambal Shares: Zuari Global Limited
Facility Type	INR denominated Rated, Listed Non-Convertible Debentures (“NCDs”)
Facility Amount	INR 1,970 million
Lender	Credit Suisse AG, Singapore Branch
Purpose	<ul style="list-style-type: none"> a) To Subscripbe to the CCD’s or make inter-corporate deposits to ZACL, whether directly or indirectly; b) To Pay of all outstanding costs, fees and expenses in relation to the issue.
Tenure	3 years
Redemption	Rs. 17 crore at the end of 2 years Rs. 180 crore - at the end of 3.0 years
All-in-Cost Pricing	<ul style="list-style-type: none"> ▪ 8.0% p.a. payable quarterly ▪ 3.735% p.a. compounded quarterly and payable on Maturity
Security	First ranking exclusive pledge over shares of Listed Cos. of atleast 2.5x of Facility Amount to be maintained at all times (“Total Collateral Cover”) with GIL shares to contribute to atleast 2.0x of Facility Amount (“GILL Collateral Cover”). <ul style="list-style-type: none"> ▪ 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

	<p>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.</p> <ul style="list-style-type: none"> ▪ First 2 top-ups shall be in the form of share top-up, post that only cash top-up shall be allowed <p>Security (by way of hypothecation) over the Cash Top Up Account and the Cash Top Up Assets in favour of the Debenture Trustee.</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 Cos.
Security Top Up	<p>Assuming that, T1, T2, T3 are 3 consecutive Business Days. If on T1 a Top Up Trigger Event occurs, then any Pledgor(s) shall at or before 5 p.m. on T3 restore (i) the Aggregate Collateral Cover to the Required Aggregate Collateral Cover and (ii) the Reference Entity 1 (Gillette India Limited) Collateral Cover to the Required Reference Entity 1 Collateral Cover, by way of a Share Top Up. If (i) the Aggregate Collateral Cover is not restored to the Required Aggregate Collateral Cover and (ii) the Reference Entity 1 Collateral Cover is not restored to the Required Reference Entity 1 Collateral Cover, in each case, by 5 p.m. on T3, then the Debenture Trustee shall have the right after 5 p.m. on T3 to exercise its rights under Clause 10.26 (Remedies upon an Event of Default) of the Debenture Trust Deed.</p>
Undertaking and Covenants	<p>The Facility Agreement shall contain covenants that are standard for financings of this nature but not limited to:</p> <ul style="list-style-type: none"> ▪ SPV like covenants on the Borrower/Issuer including no other debt ▪ Adventz Group to continue to hold the current shareholding in GIL and atleast 10% shareholding in Chambal ▪ Adventz Group to hold atleast 4.98% stake in GIL free from any encumbrance ▪ Adventz Group to continue to hold its current shareholding of 51% in the Issuer
Events of Default	<p>Customary to financings of this nature to be applicable in case of events pertaining to Borrower, Listed Cos., Adventz Group including but not limited to non-payment, illegality, cross default (on all Adventz Group debt and all listed entities of the Adventz Group excluding Zuari Agro Chemicals Limited and its subsidiaries and joint ventures; Gobind Sugar Mills Limited, Zuari Sugar & Power Limited and Texmaco Rail Engineering Limited and its subsidiaries and joint ventures), failure to top up security cover, misrepresentations, insolvency, insolvency proceedings, etc.</p>
Representations and Warranties	<p>Customary to financings of this nature</p>
Documentation	<p>All documentation, (each a "Finance Document"), the relevant fee letters and opinions (all in form and substance acceptable to the Investor) will include standard CS provisions for a Facility of this type applicable to the group, including but not limited to representations and warranties, undertakings, conditions precedent, provision of information, covenants, events of default including cross- default, illegality, market disruption, increased costs, material adverse effect, fees and expenses reimbursement; indemnities, arm's length dealings, agency and security trustee costs & provisions, break costs on funding and swaps, no related party, tax gross up and set off</p>
Expenses	<p>All miscellaneous and out of pocket expenses (including, without limitation, legal fees, due diligence etc.) incurred in the preparation, negotiation, arrangement, and execution of the transaction will be for the account of the Borrower, whether or not the transaction is ultimately completed, and reimbursable to the Investor on demand</p>
Transferability	<p>The Investor may freely transfer or assign their rights under the Facility without the consent of the Borrower. The Borrower may not transfer or assign any of its/their rights or obligations under the Facility.</p>

Jurisdiction	The agreement shall be governed by and construed in accordance with the Indian Law
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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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non Convertible Debentures	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); 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 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); Stable	1)Provisional CARE BB (CE); Stable (12-Jul-19)	-	-	-

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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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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