

**Zuari Global Limited**  
**November 22, 2019**

**Ratings**

Instrument	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Proposed Non Convertible Debentures	118.00	<b>Provisional CARE BB (CE); Stable (Provisional Double B (Credit Enhancement); Outlook: Stable)</b>	<b>Assigned</b>
<b>Total Facilities</b>	<b>118.00 (Rupees One Hundred Eighteen crore only)</b>		

**Detailed Rationale & Key Rating Drivers**

The rating assigned to the proposed 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 of Rs. 315 crore (including NCD Issue of Rs. 197 crore already issued on July 15, 2019) 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 and low volatility in the share price of of underlying securities (i.e. Gillette and Chambal).

**Key Rating Sensitivities****Positives**

Substantial improvement in the market prices of investments in the group companies,  
 Maintenance of the aggregate collateral cover (by way of pledge of shares) as per the structure during the tenure of the bank facility and timely liquidation of shares in case of occurrence of an 'event of default' during the tenure of the bank facility.

**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.

**Transaction Summary**

ZGL shall issue the INR denominated Rated, Listed Non Convertible Debentures (NCDs) of size Rs.118 crore for the tenure of 3 years in addition of NCD Issue of Rs. 197 crore issued on July 15, 2019 bearing a coupon rate of 8% p.a. payable quarterly and 3.735% p.a. compounded quarterly and payable on maturity and redeemable 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 entire NCD issue (of Rs. 315 crore) is proposed to be 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 primarily subscribe to CCDs/ ICDs being issued by its group companies, for general corporate purposes and payment of fees and expenses related to facility.

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.

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

## Detailed description of the key rating drivers

### 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 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 indicative term sheet 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). As on Sep 30, 2019, ZGL held 14.18% stake in CFCL. Out of this, 4,23,50,00 (71.76% of ZGL holding) of shares held by the ZGL are pledged. The unencumbered shares (of CFCL held by ZGL) after the said transaction is expected to remain low for the top ups. Further AFPL held around 3.40% of stake in Gillette India Limited with the unencumbered shares (of GIL held by AFPL) after the said transaction is expected to remain about 18.46% of Adventz holding (as per the 52 wk average Market price of GIL as on November 19, 2019) having a market value of Rs. 143 crore (as per 52 wk average Market price) for the top ups. 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. Therefore, any decline in market price or any further pledge of the underlying securities will be a key rating monitorable.

### Liquidity Risk

The average daily traded volume for the last one year of underlying shares 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 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. The pledged shares provide sufficient cover over tenure of rated instrument.

#### **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%

### Low volatility in the share price of GIL and CFCL vis-à-vis Sensex during the last one year

Over the last one year, the share prices of GIL and CFCL have shown less volatility as compared to Sensex leading to low value of 'Beta' of pledged share prices vis-à-vis Sensex.

**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 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)	35.95	3.33

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

A: Audited

### Indicative Terms of the proposed transaction (of Zorro I and Zorro II)

<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>	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>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>
<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>	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)

**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
Proposed Non Convertible Debentures				118.00	Provisional 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.	Non Convertible Debentures	LT	197.00	-	1)CARE BB (CE); Stable (24-Jul-19) 2)Provisional CARE BB (CE); Stable (12-Jul-19)	-	-	-
2.	Proposed Non Convertible Debentures	LT	118.00	Provisional CARE BB (CE); Stable	-	-	-	-

**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.

## Contact us

### Media Contact

Name: Mradul Mishra  
Contact no: +91-22-6837 4424  
Email ID: [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst 1 Contact

Name: Ms Ravleen Sethi  
Contact no: 011 - 4533 3278  
Email ID: [ravleen.sethi@careratings.com](mailto:ravleen.sethi@careratings.com)

### Analyst 2 Contact

Name: Mr Gaurav Dixit  
Contact no: 011 - 4533 3235  
Email ID: [gaurav.dixit@careratings.com](mailto:gaurav.dixit@careratings.com)

### Business Development Contact

Name: Swati Agrawal  
Contact no: +91-11-4533 3200  
Email ID: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

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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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