

Zuari Fertilisers & Chemicals Limited

Instrument	Amount In Rs. Crore [^]	Rating Action
Term Loans	30	[ICRA]BBB-(Stable) reaffirmed
Fund-based, Long-term Facilities	17	[ICRA]BBB-(Stable) reaffirmed
Non-Fund Based, Short-term Facilities	3	[ICRA]A3 reaffirmed

The rating of [ICRA]BBB- (pronounced ICRA triple B minus) has been reaffirmed for the Rs. 47 crore long-term fund-based facilities and term loans of Zuari Fertilisers & Chemicals Limited (ZFCL); the outlook on the long-term rating is Stable. The rating of [ICRA]A3 (pronounced ICRA A three) has also been reaffirmed for the Rs. 3 crore short-term non-fund based limits of ZFCL.[†]

The ratings primarily factor in the strong parentage of the company and the associated financial flexibility. ZFCL is promoted by the Adventz Group (erstwhile K.K. Birla Group) and is a subsidiary of the group flagship Zuari Agro Chemicals Limited (ZACL) (rated [ICRA]BBB+(Stable)/A2+), which is a leading player in the domestic fertiliser industry. Besides, the group has several other companies in the fertiliser segment, including Paradeep Phosphates Limited (PPL – rated [ICRA]BBB+(Stable)/A2+) and Zuari Specialty Fertilizers Limited. The ratings also factor in the strategic importance of ZFCL to ZACL, as the latter has invested in various growth avenues through ZFCL – investment in the greenfield single super phosphate (SSP) project, acquisition of majority shareholding of Mangalore Chemicals & Fertilisers Limited (MCF) and investment in the proposed di-ammonium phosphate (DAP) plant in Ras Al Khaimah Maritime City in UAE have been through ZFCL. MCF is now a subsidiary of ZFCL, although the loans availed by ZFCL from banks and financial institutions and from ZACL for the acquisition of MCF shares have resulted in large losses for the company in FY2016 and would continue to strain its financial profile over the near-to-medium term due to high interest costs.

The ratings also factor in the favourable demand outlook for the SSP industry in India driven by low availability of phosphate nutrient in the soil and the marketing push by leading players (including ZACL and PPL), which may lead to an increase in demand of SSP in the long run. Besides, demand risks for the marketing of the company's products are low as the SSP produced by ZFCL will be sold through the marketing network of ZACL and PPL. Though in the first year of operations (FY2016) the company achieved a capacity utilisation of about 25%, its ability to achieve optimum capacity utilisation levels may take some time and would be a key rating sensitivity.

The ratings are constrained by the volatility of profitability to fluctuations in the prices of key raw materials (rock phosphate, sulphuric acid), and the company's ability to raise retail prices in a timely manner. Besides, the profitability is vulnerable to currency fluctuations, agro-climatic conditions and regulatory developments. Working capital requirements could be influenced by timely receipt of subsidy from the GoI. The company's standalone financial position is weak due to high losses, negative net worth, high debt levels (for the SSP project and MCF investment) and associated interest costs. Going forward, the ability of the company to achieve healthy production levels and cost structure and its ability to generate sufficient cash flows through its own operations to service the debt liabilities for the SSP project would remain to be seen. Besides, any adverse impact of the investments in MCF or RAK Maritime City DAP project on the company's standalone profile and material weakening in the credit profile of ZACL will also be a rating sensitivity.

In its first year of operations in FY2016, ZFCL posted a net loss of Rs 89.4 crore on an operating income of Rs 44.7 crore, primarily on account of large interest charges. Owing to large losses the net worth of the company is negative.

ICRA notes that the Board of Directors of Zuari Agro Chemicals Ltd has approved the scheme of amalgamation of Zuari Fertilisers and Chemicals Limited (ZFCL), Zuari Specialty Fertilisers Limited (ZSFL) and Zuari Agri Sciences Limited (ZASL) with ZACL. The amalgamation shall be subject to the approval of the Scheme of Amalgamation by the High Court of Bombay at Goa. The appointed date of the amalgamation is April 01, 2015. As a consequence of amalgamation, there will be no change in the shareholding pattern of ZACL, given that all

[^] 100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

the transferor companies, ie, ZFCL, ZSFL and ZASL are wholly-owned subsidiaries of ZACL. Further, upon the scheme becoming effective, the transferor companies i.e. ZFCL, ZSFL and ZASL will be dissolved without winding up and the shares held by ZACL in the transferor Companies shall be extinguished. ICRA notes that all the transferor companies utilize the marketing and distribution network of ZACL and being a part of the same company would aid in streamlining of marketing operations besides rationalizing operational, administrative and overhead costs. ICRA believes that the amalgamation, which is expected to be complete within CY2016, will not have a material impact on the merged entity as the transferor companies are small in comparison to the parent with more than 90% of the sales and net worth contributed by ZACL alone.

Company Profile

Zuari Fertilisers & Chemicals Limited (ZFCL) is a wholly owned subsidiary of Zuari Agro Chemicals Limited (ZACL) and is a part of the Adventz Group of companies – the erstwhile K.K. Birla Group. The company was incorporated in August 2009 with a view to set up a project to manufacture Single Super Phosphate (SSP). The company's plant is located at Mahad (Maharashtra) with a capacity to manufacture 2 lakh metric tonnes per annum (MTPA) of granulated and powdered SSP. The plant commissioning activities have been completed in YTD FY16 and commercial production has started. Rock phosphate for the project is imported, while sulphuric acid is procured from domestic sources. The product is sold through the marketing network of ZACL, for which ZACL has an informal arrangement with ZFCL. Besides, ZFCL is also the holding company for the investment of the Adventz Group in Mangalore Chemicals & Fertilizers Limited (MCF) – the UB Group company, in which ZFCL has acquired the majority shareholding in May 2015 after an open offer. ZFCL holds a 53.03% stake in MCF and is part of the promoter group of MCF with the UB Group, which holds ~22.95% stake in MCF.

In FY2016 the company reported a loss of Rs 89.4 crore on an operating income of Rs 44.7 crore. In FY2015, the company did not report any revenues and reported a net loss of Rs. 23.8 crore.

Parent Company Profile

Zuari Agro Chemicals Limited (erstwhile Zuari Holdings Limited) constitutes the fertiliser operations of the Adventz Group following the demerger of Zuari Industries Limited (ZIL). It is also the holding company for the other agri-business operations of the Adventz Group. The group has interests in agri-inputs, engineering, infrastructure, real estate, consumer durables and services sectors. It was a part of the erstwhile K.K. Birla Group. In April 2011, the Bombay High Court (Goa bench) approved the demerger of ZIL's fertiliser business into Zuari Holdings Limited (later renamed as ZACL), while the residual entity ZIL (later renamed as Zuari Global Limited) retained the non-fertiliser business operations and investments. The demerger scheme was applicable w.e.f July 1, 2012.

The erstwhile ZIL was promoted in 1967 in financial and technical collaboration between the K.K. Birla Group and the U.S. Steel Corporation to manufacture urea, compound nitrogenous fertilisers and phosphates in Goa. In 1985, ZIL promoted Chambal Fertilisers & Chemicals Limited (CFCL) to produce urea using natural gas at Gadepan, Rajasthan. In 2002, ZIL acquired Paradeep Phosphates Ltd (PPL) - rated [ICRA]BBB+(Stable)/A2+ - through a JV company, as part of the disinvestment process of GoI. PPL manufactures DAP and NPK fertilisers, with its plant located at Paradeep, Orissa. While the equity shareholding of ZIL in PPL is now held by ZACL (~40% of entire shareholding of PPL through the JV company), the 13.3% shareholding of ZIL in CFCL continues to be held by ZGL.

ZACL's plant is located in Goa and comprises of a single stream ammonia plant of 0.22 million metric tonnes per annum (MMTPA) capacity, urea plant of 0.4 MMTPA capacity, complex (NPK) plant of 0.36 MMTPA capacity and DAP-cum-Complex plant of 0.48 MMTPA capacity, which is capable of manufacturing a range of complexes. ZACL completed its feedstock conversion project and is now using gas as a feedstock for manufacturing urea (it was earlier using naphtha). For complexes and DAP, it uses imported ammonia and phosphoric acid. As of end-June 2016, 73.8% of the shareholding of ZACL was held by the promoter group, while the rest is held by domestic and foreign institutional investors and public.

On a standalone basis, in FY2016, ZACL recorded a net loss of Rs. 15.9 crore on an operating income of Rs. 5,261.1 crore against net profit of Rs. 12.4 crore on an operating income of Rs. 5,510.9 crore in FY2015. As per unaudited and standalone results in Q1 FY2016, the company recorded net loss of Rs 40.6 crore on an operating income of Rs 966.2 crore.



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