

July 16, 2021

Zuari Agro Chemicals Limited: Ratings continue to be on watch with developing implications.

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	260.0	465.0	[ICRA]B &; Rating continues to be on watch with developing implications
Fund Based Limit	1000.0	851.0	[ICRA]B &; Rating continues to be on watch with developing implications
Long Term unallocated	465.0	0.0	[ICRA]B &; Rating continues to be on watch with developing implications
Non fund based limits	1980.0	748.0	[ICRA]A4 &; Rating continues to be on watch with developing implications
Short Term-Unallocated	510.0	1462.0	[ICRA]A4 &; Rating continues to be on watch with developing implications
Compulsorily convertible Debentures (CCDs)	400.40	0.0	[ICRA]B &; Rating continues to be on watch with developing implications and withdrawn
Total	4615.40	3526.0	

*Instrument details are provided in Annexure-1

Rationale

The ratings on Zuari Agro Chemicals Limited (ZACL's) bank lines continue to be on watch with developing implications following the impending sale of its urea and phosphatic fertiliser manufacturing and trading assets to Paradeep Phosphate Limited (PPL, rated [ICRA]A@[ICRA]A1@; ratings under watch with negative implications), post which ZACL is expected to clear all the external liabilities on its books apart from the promoter loans. In June 2020, ZACL had announced restructuring of its fertiliser business which involved sale of the bulk fertiliser manufacturing and trading operations to PPL. PPL is expected to fund the asset acquisition through an Initial Public Offering (IPO) and the same is anticipated in H2 CY2021. Post the asset sale, ZACL will become a holding company with stakes in Mangalore Chemicals & fertilisers Limited (MCFL), Zuari Maroc Phosphate Private limited (ZMPPL) which is the holding company of PPL and Zuari Farmhub Limited (ZFL). ZACL had hived off its assets related to specialty fertilisers and retail stores in a wholly owned subsidiary ZFL in which OCP Morocco (OCP S.A) is expected to infuse fresh equity in the near to medium term. ZACL will also operate a Single Super Phosphate (SSP) plant located at Mahad and the same will be the only source of revenue for the company apart from dividend income, if any, from its subsidiaries/associates. The ratings continue to factor in the established track record of the company in the fertiliser business and favorable long term outlook for fertilisers in the country.

The ratings are constrained by the modest scale of operations going forward i.e. post asset sale to PPL, weak financial risk profile leading to consistent support requirement from the promoters and raising Inter Corporate Deposits (ICDs), intermittent phosphatic plant operations due to weak liquidity position.

ICRA has withdrawn the rating on the compulsorily convertible debenture (CCD) program of ZACL as there is no amount outstanding against the said instrument and inline with ICRA's policy on withdrawal of ratings.

Key rating drivers and their description

Credit strengths

Established track record of the company in fertiliser and other agri-businesses- ZACL has had an established track record in the fertiliser and other agri-business since 1967. ZACL through its subsidiaries and joint ventures is engaged in manufacturing of fertilisers, seeds, and other agri-inputs.

Diversified product portfolio including urea, DAP and NPK complexes as well as traded products- ZACL is engaged in manufacturing of urea as well as DAP/NPK fertilisers at its Goa manufacturing facility along with water soluble fertilisers (WSF) and Single Super Phosphate (SSP) manufactured at other plants of the company. It also undertakes trading of various fertilisers to provide wide range of agri products to the farmers. ZACL also benefits from access to the DAP/NPK fertilisers manufactured by its JV Paradeep Phosphate Limited (PPL), however these operations will be hived off to PPL post the proposed transaction.

Favourable long-term demand outlook for fertilisers in India due to scarcity of nutrients in the soil- Indian soil remains deficient in nutrient content which has resulted in lower agri-productivity. With increasing population, the demand for food will increase which will make productivity improvement imperative for the agri sector. Thus, the demand outlook for fertilisers remains positive in India.

Strong marketing network and leading market position in Karnataka and Maharashtra-- ZACL caters to the southern and western part of India and enjoys leading market position in Karnataka and Maharashtra. ZACL along with PPL enjoy a major part of the DAP/NPK market in south –western part of India and a strong marketing network.

Credit challenges

Modest scale of operations going forward – ZACL's scale of operation will moderate sharply post the asset sale as the company will be operating only an SSP plant and will act as a holding company with investments in MCFL, ZMPPL and ZFL. The cash flows from the SSP operations and dividend inflow from the subsidiaries and associates will be the only sources of cash inflows.

Weak financial risk profile characterised by elevated term debt and low cash generation form operations, leading to consistent requirement of group support – ZACL's financial risk profile has weakened significantly since end of FY2019 leading to increased reliance on support from promoters and fundraising through Inter Corporate Deposits (ICDs). The financial risk profile is characterised by weak cash flow generation and elevated term debt levels. The cash generation form operations remains insufficient to meet the debt servicing requirements and the company is servicing its debt obligations through promoter support and raising funds through the ICDs by pledging shares of MCFL.

Intermittent plant operations due to weak liquidity position - ZACL's phosphatic fertiliser plants have been operational intermittently for most of FY2021 with overall production levels remaining low. Urea plants have had stable operations since January 2020 when the company entered into an escrow mechanism with GAIL to meet the gas supply payments.

Vulnerability of profitability to agro-climatic conditions, regulatory risks and seasonality of the fertiliser business - Agriculture sector in India remains vulnerable to the vagaries of monsoon as the area under irrigation remains low which exposes fertiliser sector to volatility as well. The sector being highly regulated also remains vulnerable to changes in the regulations by Gol.

Being a substantial importer, exposed to currency fluctuations though risk is partially mitigated by hedging policy - ZACL imports its entire requirement of phosphoric acid, ammonia and MOP for production of DAP/NPK fertiliser which exposes it to foreign exchange risks.

Liquidity position: Stretched

ZACL's liquidity remains stretched given the weak cash flow from operations which are insufficient to meet the debt obligations. The company has been raising funds from promoters as well as ICDs to meet its debt servicing obligations.

Rating sensitivities

Positive factors- Faster than expected completion of asset monetization plans resulting in deleveraging of the balance sheet and improvement in the financial risk profile.

Negative factors- Deterioration in the liquidity profile of the company putting pressure on the debt servicing capabilities of the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Fertiliser sector ICRA Policy on Withdrawal and Suspension
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the Standalone financials of the company

About the company

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, rated [ICRA]A1+) to produce urea using natural gas at Gadepan, Rajasthan. In 2002, ZIL acquired Paradeep Phosphates Ltd (PPL - rated [ICRA]A @; @ rating on watch with Negative implications/[ICRA]A1; @; @ rating on watch with Negative implications) through a JV company, as part of the disinvestment process of Gol. 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 (40.225% of entire shareholding of PPL through the JV company), the 13.3% shareholding of ZIL in CFCL continues to be held by ZGL.

ZACL is in the midst of the sale of its fertiliser manufacturing and trading assets to PPL and has hived off its specialty fertiliser business in a subsidiary Zuari Fam Hub Limited (ZFHL). Thus post the sale of the fertiliser assets to PPL, ZACL will become a holding company with equity stakes in Mangalore Chemicals & Fertilizers Limited, Paradeep Phosphate Limited and ZFHL as its major investments.

Key financial indicators (audited)

ZACL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	50.3	0.1
PAT (Rs. crore)	-189.3	-237.1
OPBDIT/OI (%)	NM	NM
PAT/OI (%)	NM	NM
Total Outside Liabilities/Tangible Net Worth (times)	29.7	-30.1
Total Debt/OPBDIT (times)	-20.1	-20.3
Interest Coverage (times)	-0.4	-0.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years								
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021			Date & Rating in FY2020			Date & Rating in FY2019	
					July 16, 2021	July 20, 2020	15 April 2020	15 July 2019	23 May 2019	13 May 2019	22 Feb 2019	10 Aug 2018	
1	Term Loan	Long Term	465.0	321.36	[ICRA]B &; rating on watch with developing implications	[ICRA]B &; rating on watch with developing implications	[ICRA]B (Stable)	[ICRA]D	[ICRA]D	[ICRA] BB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	
2	Fund Based	Long Term	851.0	-	[ICRA]B &; rating on watch with developing implications	[ICRA]B &; rating on watch with developing implications	[ICRA]B (Stable)	[ICRA]D	[ICRA]D	[ICRA] BB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	
3	Un-allocated	Long Term	0.0	-	[ICRA]B &; rating on watch with developing implications	[ICRA]B &; rating on watch with developing implications	[ICRA]B (Stable)	[ICRA]D	[ICRA]D	[ICRA] BB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	
4	Non-fund based limits	Short Term	748.0	-	[ICRA]A4; &	[ICRA]A4; &	[ICRA]B (Stable)	[ICRA]D	[ICRA]D	[ICRA] A4	[ICRA]A2+	[ICRA]A2+	
5	Un-allocated	Short Term	1,462.0	-	[ICRA]A4; &	[ICRA]A4; &	[ICRA]A4	[ICRA]D	[ICRA]D	[ICRA] A4	[ICRA]A2+	[ICRA]A2+	
6	Compulsory Convertible Debt	Long Term	0.0	0.0	[ICRA]B &; rating on watch with developing implications and withdrawn	[ICRA]B &; rating on watch with developing implications	[ICRA]B (Stable)	[ICRA]D	-	-	-	-	

&= Under watch with developing implications

Instrument	Complexity Indicator
Term Loan	Simple
Fund Based	Simple
Un-allocated	Simple
Non-fund based limits	Simple
Un-allocated	Simple
Compulsory convertible Debt	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan-I	5 Sep 2018	-	30 Sep 2023	150.0	[ICRA]B &; Rating on Watch with developing implications
NA	Term Loan-II	12 Jan 2018	-	31 May 2023	185.0	[ICRA]B &; Rating on Watch with developing implications
NA	Term Loan-III	17 May 2018	-	30 June 2023	130.0	[ICRA]B &; Rating on Watch with developing implications
NA	Fund based	-	-	-	851.0	[ICRA]B &; Rating on Watch with developing implications
NA	Unallocated	-	-	-	0.0	[ICRA]B &; Rating on Watch with developing implications
NA	Non-fund based	-	-	-	748.0	[ICRA]A4 &; Rating on Watch with developing implications
NA	Short Term-Unallocated	-	-	-	1462.0	[ICRA]A4 &; Rating on Watch with developing implications
INE840M08011	Compulsory Convertible debt	-	-	-	400.40*	[ICRA]B &; Rating on Watch with developing implications and Withdrawn

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	ZACL's Ownership	Consolidation Approach
-	-	-

Source: ZACL

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