

July 20, 2020 ^{Revised}

Zuari Agro Chemicals Limited: Ratings put under watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	260.00	260.00	[ICRA]B &; placed under watch with developing implications
Long Term Fund Based	1000.00	1000.00	[ICRA]B &; placed under watch with developing implications
Long Term un-allocated limits	465.00	465.00	[ICRA]B &; placed under watch with developing implications
Short Term non-fund-based limits	1980.00	1980.00	[ICRA]A4 &; placed under watch with developing implications
Short Term un-allocated	510.00	510.00	[ICRA]A4 &; placed under watch with developing implications
Compulsorily convertible Debentures (CCD)	400.40	400.40	[ICRA]B &; placed under watch with developing implications
Total	4615.40	4615.40	

*Instrument details are provided in Annexure-1

Rationale

On June 19, 2020, Zuari Agro Chemicals Limited (rated [ICRA]B &/[ICRA]A4 &; rating watch under developing implications) announced plans for a slump sale of its Urea and Phosphatic fertilizer plant located in Goa to Paradeep Phosphate Limited in agreement with OCP Morocco at an enterprise value of \$ 280 million. It may be noted that ZACL and OCP Morocco hold 40.225% shareholding each in PPL, through a Joint Venture Zuari Maroc Phosphate Private Limited (ZMPPL). The transaction is subject to various statutory approvals besides which the funding plans for the acquisition remain a key monitorable. Additionally, the company also transferred its specialty fertiliser business to a fully owned subsidiary Zuari Farm hub Limited (ZFHL) with the aim to monetise the asset through a stake sale to OCP Morocco. OCP Morocco has shown interest in investing around \$ 46.5 million in ZFHL, though the same remains subject to completion of due diligence by OCP. These transactions are subject to various statutory approvals. The sale of these assets and the resultant fund raising will help ZACL to deleverage its balance sheet. ICRA also takes note of the material weakening of the profitability of ZACL in Q4 FY2020 driven by intermittent plant operations and provisioning for demurrage charges and investment impairments. The net loss of the company moderated to Rs. 186.5 crore in FY2020 as against a loss of Rs. 345.8 crore in FY2019 mainly due to a non-cash gain of Rs. 697.9 crore in FY2020 due to transfer of its specialty fertiliser to a subsidiary Zuari Farm hub Limited (ZFHL) resulting in fair value gain for the company. ICRA will closely monitor the developments and would keep the investors updated on the implication of the same on the credit profile of the company.

The previous detailed rating rationale is available on the following link: [Click here](#)

Key rating drivers and their description

Credit strengths

The previous detailed rating rationale is available on the following link: [Click here](#)

Credit challenges

The previous detailed rating rationale is available on the following link: [Click here](#)

Liquidity position: Stretched

ZACL's liquidity remains stretched given the weak cash inflows from operations as the plants had been operational intermittently. The urea plants are expected to remain operational given the tie-up with GAIL (India) Limited to provide natural gas in lieu of first claim on receipt of subsidy receivables. Additionally, the dependence on the subsidy inflow from GoI, which is usually delayed, will keep the liquidity position subdued. Given that the GoI's finances will be constrained due to the ongoing novel coronavirus (COVID-19) pandemic, any abnormal delay in the subsidy payments may adversely affect the liquidity position of the company.

Rating sensitivities

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

Negative trigger- 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
Parent	NA
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.

Key financial indicators (audited):

	FY2019	FY2020
Operating Income (Rs. crore)	4,731.0	2,012.6
PAT (Rs. crore)	90.0	-446.0
OPBDIT/OI (%)	1.9%	-22.2%
RoCE (%)	0.3%	10.6%
Total Outside Liabilities/Tangible Net Worth (times)	16.8	29.7
Total Debt/OPBDIT (times)	39.1	NM
Interest Coverage (times)	0.2	-1.1
DSCR	0.4	-0.6

Source: ICRA estimates; OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg. (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital; * 9M FY2020 results are un-audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years							
		Type	Amount Rated	Amount Outstanding	Rating		FY2020			FY2019		FY2018	
					July 20, 2020	April 15, 2020	15 July 2019	23 May 2019	13 May 2019	22 Feb 2019	10 Aug 2018	25 Sep 2017	16 Aug 2017
1	Fund Based	Long Term	1000.0	-	[ICRA]B &; placed under watch with developing implications	[ICRA]B (Stable)	[ICRA]D	[ICRA]D	[ICRA]BB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Term Loan	Long Term	260.0	260.00	[ICRA]B &; placed under watch with developing implication	[ICRA]B (Stable)	[ICRA]D	[ICRA]D	[ICRA]BB (Negative)	[ICRA]BBB+ (Negative)	-	-	-
3	Un-allocated	Long Term	465.0	-	[ICRA]B &; placed under watch with developing implication	[ICRA]B (Stable)	[ICRA]D	[ICRA]D	[ICRA]BB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
4	Compulsorily convertible Debentures	Long Term	400.4	0.00	[ICRA]B &; placed under watch with developing implication	[ICRA]B (Stable)	[ICRA]D	-	-	-	-	-	-
5	Non-fund based limits	Short Term	1980.0	-	[ICRA]A4 &; placed under watch with developing implication	[ICRA]A4	[ICRA]D	[ICRA]D	[ICRA]A4	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

6	Un-allocated	Short term	510.0	-	[ICRA]A4 & placed under watch with developing implications	[ICRA]A4	[ICRA]D	[ICRA]D	[ICRA]A4	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
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Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan	December 2014	9.6%-11.4%	March 2022	260.00	[ICRA]B (Stable)
-	Fund Based long term	-	-	-	1000.00	[ICRA]B (Stable)
-	Long term Un-allocated limits	-	-	-	465.00	[ICRA]B (Stable)
-	Non-fund-based limits	-	-	-	1980.00	[ICRA]A4
-	Short term unallocated	-	-	-	510.00	[ICRA]A4
-	Compulsorily convertible debentures	-	-	-	400.40	[ICRA]B (Stable)

Source: ZACL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA		

Corrigendum:

The PR date in Rating history table was corrected from August 10, 2019 to August 10, 2018.

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