adventz

ZUARI INDUSTRIES

ZUARI INDUSTRIES LIMITED
(formerly Zuari Global Limited)
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27 October 2023

To,

National Stock Exchange of India Ltd,
Exchange Plaza, C-1, Block-G
Bandra-Kurla Complex, Bandra (E)
Mumbai- 400 051

BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001

NSE Symbol: ZUARIIND

BSE Scrip Code: 500780

Sub: Disclosure under Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI Listing Regulations") – Credit Rating.

Dear Sir / Madam,

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform that Care Ratings Limited, the Credit Rating Agency, has renewed and assigned the following rating to the bank facilities availed by the Company:

Facilities/Instruments	Amount (₹ crore)	Rating	Rating Action
Long-term bank facilities	402.64 (Reduced from 604.75)	CARE BBB-; Stable Reaffirmed	Reaffirmed
Short-term bank facilities	14.00 (Reduced from 17.25)	CARE A3	Reaffirmed

A copy of Press Release in this regard, received by the Company from the Credit Rating Agency on 27 October 2023 is enclosed herewith.

The said disclosure is also being made available on the website of the Company at www.zuariindustries.in.

Kindly take the same on record.

Thanking You,

For Zuari Industries Limited
(Formerly Zuari Global Limited)

LAXMAN AGGARWAL
Digitally signed by LAXMAN AGGARWAL
Date: 2023.10.27 16:49:24 +05'30'

Laxman Aggarwal
Company Secretary

Encl- As above

Zuari Industries Limited

October 25, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	402.64 (Reduced from 604.75)	CARE BBB-; Stable	Reaffirmed
Short-term bank facilities	14.00 (Reduced from 17.25)	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Zuari Industries Limited's (ZIL – erstwhile Zuari Global Limited) takes into account the strong presence of the Adventz group – chaired by Saroj Kumar Poddar, across various business verticals including the group's presence in the sugar industry (through erstwhile Gobind Sugar Mills Limited (GSML), now merged with ZIL) for over seven decades with integrated sugar business operations with forward integration into co-generation and distillery resulting in diversified revenue streams. The ratings also factor in the expected improvement in operations of sugar, power, and ethanol division (SPE) backed by envisaged improvement in drawl rate by increasing cane acreage and augmented distillery capacity which is further aided by supportive government's policies and their thrust on ethanol blending program (EBP). With higher distillery capacity and consequently higher sales of ethanol through the B heavy route, profitability is likely to improve going forward. The ratings also take into account the financial flexibility of the group emanating from market value of the investments in companies with stable financial risk profile. Furthermore, the Adventz group is in the process of monetizing part of its land parcels held under ZIL and its associates over the medium term which shall be utilized to de-leverage at ZIL and this remains a key rating monitorable.

These strengths are partially offset by high level of debt with significant debt repayments backed by pledge of high market value non-current investments which acts as a mitigant, modest debt coverage indicators, lower cane drawl rate adversely impacting the sugar operations and efficiency in the past leading to lower cash generation from operations for debt servicing, working capital intensive nature of operations, vulnerability of operations to agro-climatic conditions and the inherent cyclicity and regulated nature of the sugar industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant reduction in debt levels leading to improvement in debt coverage indicators like Interest Coverage Ratio (PBILDT/ Interest) over 2x on sustained basis
- Improvement in liquidity along with improvement in cash flow from operations on a sustained basis along with prudent management of cane dues.

Negative factors

- Inability to de-leverage and reduce the high debt levels in the medium term and improve liquidity from current levels.
- Interest coverage of below 1.2x on sustained basis.
- Any regulatory change having the potential to materially impact the company's performance negatively on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation of a sustained operational and financial risk profile of the company in the medium term and is also expected to maintain its financial flexibility as the holding company of the group for Adventz.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers:

Key strengths

Diversified business conglomerate with experienced management and diversified income stream: The Adventz group operates businesses across four major business verticals namely, agri-business, engineering & infrastructure, emerging lifestyle, and services, while ZIL has its presence in SPE division and real- estate. ZIL is the holding company of the group and apart from having financial investments into the group's operating entities, it also has SPE and real estate segment under ZIL. The income stream of ZIL is diversified with it earning income through SPE division and also gets regular dividend and interest income by virtue of being the holding company of the group and certain income also accrues through real estate business.
Interest income gets accrued against support extended by ZIL to its group entities and dividend income against its quoted investments.

Table.1: Segment-wise revenue of ZIL (Standalone) **₹ crore**

Particulars	March 31, 2022 (A)	March 31, 2023 (A)
Sugar	415.24	548.89
Power	29.42	32.09
Ethanol	150.88	169.93
Sale of Land- Real Estate division	-	38.04
Real Estate Project	8.39	19.34
Interest income	97.37	82.14
Dividend income	56.52	45.66
Total	**757.82**	**936.09**

The Adventz Group is promoted by Saroj Kumar Poddar (Chairman and Director), who is best known for introducing men's shaving brand Gillette, French furniture maker brand Gautier and Duracell batteries to the Indian market. Late K.K. Birla bequeathed the fertilizer business and sugar business to Poddar and his wife Jyotsna Poddar (Director, daughter of K.K. Birla). He subsequently ramped up the business by acquiring Mangalore Chemicals and Fertilizers Limited (CARE A-; Stable/ CARE A2+) from Vijay Mallya. Besides, Poddar is also chairing Paradeep Phosphates Limited, which completed its Initial Public Offer in May 2022 successfully, Texmaco Rail & Engineering Limited (CARE BBB+; Stable/ CARE A3+) and Texmaco Infrastructure Holdings Limited (CARE BBB+; Stable). All the companies under the group are professionally managed.
With the company's focus on deleveraging its balance sheet both at standalone and consolidated level, financial flexibility of ZIL along with its promoters would remain key credit risk perspective.

Stable performance of SPE division with further improvement expected: ZIL's SPE division underwent a massive transformation over the years from being a standalone sugar factory which was exposed to vagaries and cyclicality of sugar business to a fully-integrated sugar mill. The company is forward integrated into cogeneration and distillery operations that de-risks the core sugar business to some extent. The revenue from sugar segment increased 31.33% y-o-y in FY23. The decline in sales in FY22 was on account of limited availability of sugarcane crop due to red rot disease and adverse weather conditions (floods in Tarai region of U.P.). During FY23, the company crushed 133.39 lakh quintals (vs 128.09 lakh quintals in FY22) of sugar cane achieving sugar recovery rate of 9.85% (vs 9.43% during previous fiscal). Production of sugar moderated during the year to 11.6 lakh quintals (vs 12.07 lakh quintals in FY22) due to greater diversion of B-heavy molasses towards production of ethanol as the GOI announced better prices for ethanol produced through sugar diversion in the form of B-Heavy ethanol & direct juice to ethanol conversion. During FY23, distillery plant of the company produced 265.02 lakh litres of ethanol (as against 262.46 lakh litres in FY22) whereas the cogeneration unit produced 102.25 million units of power and exported 79.39 million units to the Uttar Pradesh Power Corporation Limited (UPPCL). ZIL lower drawl rate improved by 4.48% in FY23 to 58.02%. To increase the cane yield, the department is working towards varietal replacement, demonstrations of trench planting, foliar spray of urea/NPK fertilizers, etc. As a result, area under cultivation increased by 7% over the last year under better variety—CO 0118 (+293%), CO 15023 (+966%), COLK 14201 (+1915%). Furthermore, the company has paid off all its cane dues as on October 16, 2023, majorly through inventory liquidation and its benefit on the company's operating cycle is expected to be reflected in the following year. The company also increased its distillery capacity from 100 KLPD to 125 KLPD in FY23 and is expected produce ethanol directly from syrup in the current year. With higher distillery capacity and consequently higher sales of ethanol through the B heavy route, profitability is likely to improve thereby having a positive bearing on the capital structure going forward. The company's ability to turnaround the performance of its sugar segment would remain a key monitorable.

Focus on reducing interest burden and deleveraging plans across the group through monetization of assets: ZIL along with its associates owns around 1,000 acres of land and is in progress to monetize part of its land parcels, which would potentially help deleveraging the group. The company has been earning income from selling of its land bank under real estate segment as well as held as fixed assets. To speed up the monetization of land, ZIL has entered into a Joint Development Agreement with Zuari Periwall Developers LLP (not a related party) for plotting the properties into separate plots and selling such independent plots to prospective buyers. The group has around 630 acres of landbank in South Goa held through ZIL and Zuari Agro Chemicals Ltd and the monetization of land parcel in at advanced stages. During FY23, the company has sold 20.8 acres of land and has realised income of ₹45 crore in FY23 and further ₹55 crore was realised in Q1FY24 which was used to pay the debt of the company. Furthermore, monetisation and repayments of debt remains a key rating monitorable.

Substantial amount of equity investment – acting as a safety net: ZIL has an investment portfolio of ₹2,043 cr as on March 31, 2023 (PY: ₹2,985 cr) comprising of investments in group companies along with a portfolio of quoted investments. Of the total investments, the value of quoted investments as on March 31, 2023, stood at Rs. 1,798 cr. The portfolio predominantly comprises of shares of Chambal Fertilizers and Chemicals Limited (CFCL), market value of which stood at ₹ 1,558.65 cr as on March 31, 2023. The unpledged value of liquid investments in quoted shares is valued at around ₹244.79 cr as on October 16, 2023, which acts as a safety net for the company and provides adequate cushion. A significant part of these investments along with certain land parcels have been pledged against the debt taken by the company in its books or even subsidiaries and against the loans where corporate guarantee has been extended amounting to a total of ₹710.25 cr.

History of refinancing debt at lower interest rates: The company has a track record of refinancing its debt and is currently focusing on refinancing its higher cost debt with debt having better interest rates. In Q2FY24, ZIL refinanced two of its loans/NCDs i.e., BlackRock NCDs (effective interest rate: 19.02%) and FMO (effective interest rate: around 12%), by IIFL and Axis Finance Limited at a lower effective interest rate of 11.45%- 11.79% which would result in reducing interest burden while having an expected annual benefit of around ₹20 cr. Furthermore, the high-cost debt was secured against the shares of CFCL and ZACL, with a share cover of 2x - 2.5x which is now replaced by 1.25x share cover (CFCL) and 1.25x land cover. The repayments for BlackRock up to 25% was due in March 2024 and balance in October 2024, which reflects that the company has been able to refinance the same much ahead of the repayment schedule. Furthermore, Rs. 50.00 Cr of loan from STCI Finance Limited is expected to be refinanced in H2FY24 at lower interest rates and is at advanced stages of discussion with the lenders.

Positive industry outlook by virtue of supportive government policies: Sugar sector is witnessing tailwinds from higher sugar prices and healthy ethanol demand (in order to achieve blending targets). The government of India has taken multiple measures over the past couple of years to check the fall in sugar prices, improve the cash flows of millers and aid them to clear cane dues. The measures include the fixation of a minimum selling price of sugar and a regulated monthly release mechanism that have led to a recovery in sugar prices. The introduction of MSP and a rational increase in cane prices over the past few years has helped to reduce the volatility in cane arrears that were a common phenomenon earlier.
On June 5, 2021, the government advanced the ethanol blending target of 20% in petrol by five years, from 2030 to 2025, to reduce pollution and India's dependence on expensive crude oil imports. This move is expected to provide a boost to the sugar industry by encouraging more diversion of sugarcane and sugar towards ethanol, thereby reducing the sugar glut in India. The EBP aims to increase the ethanol blend level with petrol to 20% by 2025 (advanced from 2030). To achieve this target, the government continues to incentivize ethanol by providing soft loans at subsidized interest rates for setting up or expanding distillery capacities, in addition to an increase in the procurement prices. With the sugar inventories getting rationalized, demand-supply balance evening out and considerable increase in ethanol sales, the cash flows of integrated sugar mills is going to enhance. ZIL is also aiming to divert its sugar syrup for production of ethanol, which is cash lucrative. With increased ethanol capacities & stable sugar prices, the industry outlook remains stable over medium term.

Key weaknesses

Significantly high debt levels: To support the operations of its subsidiaries and associates, ZIL had raised significant debt along with debt for its SPE division, which resulted in overall long-term borrowings of ₹1,497.41 cr as of March 31, 2023 (including corporate guarantees, PY: ₹1,533.98 cr) which has led to substantial debt repayment obligations to the tune of ₹185.94 cr in FY24. The loans raised in the holding company (ZIL) have been extended to its downstream group entities in the form of loans & advances. The company has outstanding loans and advances of around ₹520.47 cr as on March 31, 2023, extended to related parties. ZIL has incurred huge finance cost of ₹157.82 cr in FY23. However, the strong market value of investments held by the company has enabled it to refinance its high-cost debt at relatively lower rates, thereby reducing its finance cost by 19% against previous year. The company's ability to de-leverage or refinance the debt at lower interest cost will remain key credit monitorable.

Elongated operating cycle due to seasonality: The sugar industry being seasonal in nature has high working capital requirements during the peak season which is from November to April. The companies have high working capital requirements during the peak season to procure their primary raw material, i.e., sugarcane and manufacture sugar during this period. ZIL's inventory holding period is high (282 days as on March 31, 2023, as against 397 days as on March 31, 2022) on account of substantial real estate inventory but the same has improved from last year on account of sale of sugar in domestic and export market. The operating cycle of the company stood elongated at 177 days in FY23 but has sequentially improved from 228 days in FY22 on account of reduction in inventory holding days. The collection period however remains stable and comfortable at about 18 days (PY: 16 days). The creditors' days have reduced from 185 days as on March 31, 2022, to 122 days as on March 31, 2023, on account of reduced cane dues. As on October 16, 2023, the company has paid all its outstanding cane dues amounting to around ₹515 cr for last sugar season 22-23, majorly through inventory liquidation. As per the management, the company will be starting this season with zero cane outstanding dues, the benefits received from the same will be a key monitorable for the following fiscal year.

Vulnerability of operations to agro-climatic conditions: Being an agro-based industry, performance of ZIL is dependent on the availability of sugarcane for crushing which may get adversely affected. As seen in FY22, the company's sales declined on account of limited availability of sugarcane crop due to red rot disease and adverse weather conditions (floods in the Tarai region of U.P.).

Cyclical and regulated nature of sugar business: The industry is cyclical by nature and is vulnerable to government policies for various reasons like its importance in the Wholesale Price Index (WPI) as it classifies as an essential commodity. The government on its part resorts to various regulations like fixing the raw material prices in the form of state advised prices (SAP) and fair and remunerative prices (FRP). All these factors impact the cultivation patterns of sugarcane in the country, and thus affect the profitability of the sugar companies.

Industry risk of downstream companies: The company is exposed to the inherent risk pertaining to its subsidiaries and associates primarily in agro-chemicals, commodities, real estate, engineering, and infrastructure. Long-gestation infrastructure projects and dependence on government for approvals exposes the company to financial burden and related project delay cost. The commodity business exposes the group to unpredictable climatic conditions affecting the revenues and profitability.

Liquidity: Adequate

The company has adequate liquidity with free cash and bank balances of ₹39.52 cr as on March 31, 2023. The company has term debt repayment obligations of ₹169.34 cr in FY24. Of this, scheduled repayments, ₹100.61 of repayments have already been made till September 2023. NCDs of ₹127.50 cr from BlackRock havre been refinanced by raising loan from Axis Finance Limited and IIFL at lower interest rates i.e., 11.45% - 11.79% in the month of September 2023. Earlier the debt had a share cover of 2x - 2.5x which is now replaced by 1.25x share cover (CFCL) and 1.25x land cover. The company has established a structured financial arrangement for the same. Interest payments are scheduled on a quarterly basis for Axis and a half-yearly basis for IIFL facilities. Access to additional income sources in the form of interest and dividend post-merger of GSML with ZIL, provides liquidity cushion to SPE division to some extent. ZIL also has liquid investments in the form of unpledged quoted investments market value for which stood at ~Rs. 244 Cr as on October 16, 2023. ZIL is also in process of monetizing its land parcel which will result in additional cash inflows. Furthermore, ZIL is expecting the recoupment of loans extended to ZACL in the current fiscal which is contingent upon monetization of assets in the latter. The company does not have any major debt-laden capex plans in the near future and the internal generation is expected to be sufficient to meet the routine capex requirement. Besides, being part of the Adventz group, a large conglomerate, do provide cushion to the liquidity in the form of available financial flexibility.

Assumptions/Covenants

NA

Environment, social, and governance (ESG) risks

NA

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Rating methodology for Real estate sector
Sugar
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Fast moving consumer goods	Fast moving consumer goods	Agricultural food & other products	Sugar

ZIL is a publicly listed company and holding company of Saroj Kumar Poddar (son-in-law of Late K. K. Birla) led the Adventz Group, a diversified conglomerate of 26 companies having diversified operations across four major industry verticals- Agriculture, Engineering & Infra, Lifestyle & Real Estate and Services. ZIL in its capacity as holding company principally earned interest income from loans & advances extended to group companies, dividend income from the large portfolio of investments it held and income from its real estate project (Zuari Rain Forest Phase-1, Goa). Post April 30, 2022, Gobind Sugar Mill (GSM), one of the oldest sugar mills in Uttar Pradesh, with nearly 75 years of operations merged into ZIL. Thereafter, ZIL broadened to add Sugar, Power and Ethanol (SPE) division post-merger with a cane crushing capacity of 10,000 TCD, an ethanol distillery of 125 KLPD and a co-generation plant of 40 MW. Furthermore, ZIL has also extended corporate guarantees to several subsidiaries to support their operations.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	780.16	949.79	184.08
PBILDT	185.43	201.06	28.34
PAT	15.30	18.37	54.19
Overall gearing (times)	0.42	0.55	NA
Interest coverage (times)	0.95	1.27	NA

A: Audited UA: Unaudited NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA:
Not Applicable

Any other information:
Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-External commercial borrowings		-	-	31/12/2026	1.00	CARE BBB-; Stable
Fund-based - LT-Term loan		-	-	31/12/2026	143.39	CARE BBB-; Stable
Fund-based - LT-Working capital limits		-	-	-	257.25	CARE BBB-; Stable
Fund-based-Long term		-	-	31/12/2026	1.00	CARE BBB-; Stable
Non-fund-based - ST-Bank guarantee		-	-	-	2.50	CARE A3
Non-fund-based - ST-Credit exposure limit		-	-	-	11.50	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (24-Jun-21)	1)CARE BB (CE) (CW with Developing Implications) (06-Oct-20)
2	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (24-Jun-21)	1)CARE BB (CE) (CW with Developing Implications) (06-Oct-20)
3	Un Supported rating	LT	-	-	-	-	1)Withdrawn (24-Jun-21)	1)CARE BB (06-Oct-20)

4	Fund-based - LT-Term loan	LT	143.39	CARE BBB-; Stable	-	1)CARE BBB-; Stable (20-Sep-22)	-	-
5	Fund-based - LT-External commercial borrowings	LT	1.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (20-Sep-22)	-	-
6	Fund-based - LT-Working capital limits	LT	257.25	CARE BBB-; Stable	-	1)CARE BBB-; Stable (20-Sep-22)	-	-
7	Non-fund-based - ST-Bank guarantee	ST	2.50	CARE A3	-	1)CARE A3 (20-Sep-22)	-	-
8	Non-fund-based - ST-Credit exposure limit	ST	11.50	CARE A3	-	1)CARE A3 (20-Sep-22)	-	-
9	Fund-based-Long term	LT	1.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (20-Sep-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-External commercial borrowings	Simple
2	Fund-based - LT-Term loan	Simple
3	Fund-based - LT-Working capital limits	Simple
4	Fund-based-Long term	Simple
5	Non-fund-based - ST-Bank guarantee	Simple
6	Non-fund-based - ST-Credit exposure limit	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact Us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in