adventz

15th May, 2019

To,

The Secretary,
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai - 400 001
BSE scrip Code: 534742

The Secretary,
National Stock Exchange of India Limited
Exchange Plaza, 5th floor
Plot No. C/1, 'G' Block,
Bandra-Kurla Complex, Bandra (E)
Mumbai - 400 051
NSE Symbol: ZUARI

Dear Sirs,

Sub: Intimation of revision in credit rating

In terms of Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform that based on ICRA Rating, the credit rating of the Company has revised.

We also enclose a copy of the rating letter received from ICRA Limited giving details and reasons of the rating as aforesaid for your information.

This is for your information and record.

Thanking you,

For Zuari Agro Chemicals Limited

R.Y. Patil
Vice President & Company Secretary

Encl: As above

ZUARI AGRO CHEMICALS LIMITED
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Tel: +91 124 482 7800 Fax: +91 124 421 2046 Email: zuari.delhi@adventz.com
www.adventz.com
Registered Office: Jaikisaan Bhawan, Zuarinagar, Goa - 403726

May 13, 2019

Zuari Agro chemicals Limited- Ratings downgraded

Summary of Rated Instrument:

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	0.0	260.0	Rating revised to [ICRA]BB (Negative) from [ICRA]BBB+ (Negative)
Long Term Fund Based	1,200.0	1000.0	Rating revised to [ICRA]BB (Negative) from [ICRA]BBB+ (Negative)
Long Term Fund Based Interchangeable#	(75.0)	0.0	Rating revised to [ICRA]BB (Negative) from [ICRA]BBB+ (Negative)
Long Term un-allocated limits	265.0	465.0	Rating revised to [ICRA]BB (Negative) from [ICRA]BBB+ (Negative)
Short Term non-fund-based limits	2750.0	1980.0	Rating revised to [ICRA]A4 from [ICRA]A2+
Short Term un-allocated	0.0	510.0	Rating revised to [ICRA]A4 from [ICRA]A2+
Total	**4215.0**	**4215.0**	

**Instrument details are provided in Annexure-1*

 # Rs 75 crore of long-term limit is fully interchangeable with short term non-fund-based limits

Material Event

Zuari Agro Chemicals Limited (ZACL) was not able to meet its obligation for payments of several Letters of Credit (LCs) cumulatively amounting to ~Rs 255 crore in the month of April and May 2019 leading to devolvement and overutilisation of the Cash Credit (CC) facilities. The company is in the process of raising funds to improve its liquidity position.

Rationale

The rating revision factors in the devolvement of several LCs by the company in the month of April and May 2019 and overutilisation of fund based facilities owing to significant delays in the subsidy receipt from GoI and weak liquidity position of the company driven by significant cash loss in 9M FY2019. The significant loss was driven by the agri-stress prevalent in parts of the operating territories of ZACL i.e. Northern Karnataka and the Marathwada region resulting in inability of the company to pass on the increase in raw material price to farmers along with a two-month long shutdown undertaken at the urea plant in Q3 FY2019. The rating revision also considers the cash flow mismatches arising from the delay in subsidy receipts from GoI resulting in weak liquidity position. The rating revision also factors in the delay in the process of raising adequate funds to meet the repayment obligations and reduced financial flexibility.

The company is in the midst of raising funds to meet the obligations. The company is expected to raise funds from Non-Banking Financial Channels along with additional funding expected from promoter entity as well. Timely completion of these fund-raising plans will be critical for the company to meet the liquidity gap. ICRA will continue to monitor the progress in fund-raising and improvement in the liquidity position.

The ratings continue to be constrained by the continuing high debt levels due to significant subsidy delays by the Government of India and the resulting weak debt coverage indicators and modest core profitability metrics. The ratings also factor in the decline in gas costs for the company following the implementation of gas pooling for the urea sector by the Government of India, although the company has also lost out on energy savings to some extent. Besides the already high debt levels owing to subsidy delays and the debt funded acquisition of MCFL resulted in further increase in the debt levels of the company. Further, the MCF acquisition may not generate any major returns for ZACL in the medium term, although long-term synergies and growth opportunities exist.

The ratings are also constrained by the vulnerability of profitability of the industry to agro-climatic conditions, regulated nature of the industry and seasonality associated with the fertiliser business. The performance of the non-urea sector is relatively more vulnerable to regulatory (subsidy) as well as economic variables (such as supply-demand, commodity prices and currency movements); profitability for the segment can be volatile depending upon ruling international prices of raw materials as well as ability to raise retail prices in an adequate manner. Demand for the segment has also been affected in recent years due to high retail prices of these fertilisers resulting in a significant price differential with urea. The subsidy inflow continues to remain slow from GoI leading to adverse impact on the liquidity profile of the company.

The ratings continue to factor in the established position of the company in the fertiliser and other agri-businesses, diversified product portfolio and healthy operating efficiency and its strong marketing network and leading market position in Karnataka and Maharashtra.

Outlook: Negative

ICRA believes the cash generation of the company will remain weak in the near term given the significant agri-stress prevalent in the operating territory of the company. This coupled with slower than expected subsidy release from GoI will keep its liquidity weak unless the company augments its funding limits.

The outlook may be revised to Stable if there is material improvement in the profitability of the company and/or timely infusion of funds through a rights issue.

Key rating drivers

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).

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.

High operating efficiency of the plants, although the company has faced certain operational issues in recent years: Though ZACL's plants had faced operational issues in the past, the operational efficiency has improved over the last few years. Urea as well as DAP/NPK plant has shown healthy capacity utilisation in last few years. Urea plant has witnessed improving capacity utilisation and energy efficient operations post implementation of gas pooling for the fertiliser sector resulting in lowering of gas costs for ZACL.

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

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 GoI.

Performance of non-urea fertilisers is relatively more vulnerable to regulatory and economic variables: Non-urea fertiliser demand is relatively more volatile as the preference for urea is driven by the price differential. In case of weak monsoon, the non-urea fertilisers have seen more impact on demand relative to that on urea. The domestic manufacturers are also affected by movement in international prices of end products as well as raw material which impact the profitability. Post implementation of Nutrient Based Subsidy (NBS) for P&K fertilisers, the price differential between urea and P&K fertilisers has widened which has adversely impacted demand for P&K fertilisers. The profitability of the companies depends on the movement of international prices of raw material as majority of these are imported. The ability of the company to pass on any increase in raw material prices to end-consumer through revision of retail price also plays a crucial role in protecting profitability which may be constrained by high level of stocks or poor monsoon etc.

Imports expose ZACL to forex risk; partly mitigated by the hedging policy of the company: ZACL imports its entire requirement of phosphoric acid, ammonia and MOP for production of DAP/NPK fertiliser which exposes it to foreign exchange risks. The risk is however partly mitigated as the company leaves very small amount of its foreign exchange exposure as unhedged.

Debt funded capex to meet energy norms under NUP-2015: ZACL will be undertaking significant debt funded capex to meet energy consumption norms applicable under NUP-2015 from FY2021 onwards. The capex for the project is around Rs. 380 crore and is to be funded in a debt-equity ratio of 70:30. The capex is expected to keep the credit metrics subdued in the near term.

Subdued capital structure characterised by low capitalisation, high debt and low core profitability: Capital structure of the company has weakened since demerger from Zuari Industries Limited. Low capitalisation, high debt due to subsidy receivable driven working capital borrowings along with weak core profitability over the past few years has resulted in weak capital structure. Going forward the debt funded capex will keep the capital structure subdued unless equity infusion is completed in a timely manner by the company.

High working capital intensity due to subsidy delays and high trade receivables resulting in high borrowings: As the subsidy receivables from GoI continue to remain outstanding for as long as 4-5 months working capital borrowings to fund the receivables keep the borrowing levels elevated. The high receivable days also lead to high working capital intensity for the business and high interest costs for the company impacting profitability.

MCF acquisition leading to cash outflow: ZACL had acquired 53.03% ownership in MCFL through its subsidiary Zuari Fertilisers & Chemicals Limited (ZFCL, now merge with ZACL) with a total cash outflow of Rs. 510 crore. The acquisition was majorly debt funded and ZACL continues to service the debt leading to cash outflows in the form of interest and debt repayments.

Liquidity Position:

Liquidity position of the company has weakened materially owing to large loss posted by the company in 9M FY2019 coupled with continued delay in the subsidy receivables from the GoI which has led to elongation of the working capital cycle. Owing to stretched liquidity position and weakening credit profile of the company, the financial flexibility of the company has weakened. While company is in the midst of fund-raising timely completion of the same will be a key monitorable for improvement in the liquidity position of the company.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in the fertiliser industry
Parent	NA
Consolidation / Standalone	The ratings are based on 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(Stable)/[ICRA]A1) 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 (40.225% of entire shareholding of PPL through the JV company), the 13.3% shareholding of ZIL in CFCL continues to be held by ZGL.

ZACL's plant is located in Goa and comprises of a urea plant of 0.4 MMTPA capacity, complex (NPK) plant of 0.36 MMTPA capacity and DAP-cum-Complex plant of 0.36 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 March 2019, 65.04% of the shareholding of ZACL was held by the promoter group, while the rest is held by domestic and foreign institutional investors and public.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	4076.5	4647.6
PAT (Rs. crore)	-60.4	30.3
OPBDIT/OI (%)	6.3%	7.3%
RoCE (%)	6.6%	9.8%
Total Debt/TNW (times)	4.7	4.7
Total Debt/OPBDIT (times)	12.1	9.2
Interest coverage (times)	0.8	1.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years					
						Date & Rating in FY2019		Date & Rating in FY2018		Date & Rating in FY2017	
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	May 2019	February 2019	Aug 2018	September 2017	August 2017	February 2019	Aug 2018
1	Fund Based	Long Term	1000.0	-	[ICRA]BB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB + (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB + (Stable)
2	Term Loan	Long Term	260.0	260.0	[ICRA]BB (Negative)	[ICRA]BBB+ (Negative)	-	-	-	-	-
3	Un-allocated	Long term	465.0	-	[ICRA]BB (Negative)	[ICRA]BBB+ (Negative)	[ICRA]BBB + (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB + (Stable)
4	Non-fund-based limits	Short Term	1980.0	-	[ICRA]A4	[ICRA]A2+	[ICRA]A2+	[ICRA]A2 +	[ICRA]A2 +	[ICRA]A2+	[ICRA]A2+
5	Un-allocated	Short term	510.0	-	[ICRA]A4	[ICRA]A2+	[ICRA]A2+	[ICRA]A2 +	[ICRA]A2 +	[ICRA]A2+	[ICRA]A2+

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 www.icra.in

Annexure-1: Instrument Details

ISIN o	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan	March 2014	9.6%-11.4%	2022	260.0	[ICRA]BB(Negative)
-	Fund Based long term	-	-	-	1000.0	[ICRA]BB(Negative)
-	Long term Un-allocated limits	-	-	-	465.0	[ICRA]BB(Negative)
-	Non-fund-based limits	-	-	-	1980.0	[ICRA]A4
-	Short term unallocated	-	-	-	510.0	[ICRA]A4

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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