Initiating Coverage

Zuari Global Ltd.

[Smallcap (High Risk) - Value unlocking possible]

February 10, 2022

RETAILRESEARCH

Zuari Global Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Diversified	Rs 178.25	Buy in the band of Rs 176-182 & add more on dips to Rs 146-150 band	Rs 235	Rs 276	3-4 quarters

HDFC Scrip Code	ZUAGLOEQNR
BSE Code	500780
NSE Code	ZUARIGLOB
Bloomberg	ZUAR IN
CMP Feb 09, 2022	178.25
Equity Capital (Rs cr)	29.4
Face Value (Rs)	10
Equity Share O/S (cr)	2.9
Market Cap (Rs cr)	524.8
Book Value (Rs)	666.9
Avg. 52 Wk Volumes	104096
52 Week High	183.8
52 Week Low	75.0

Share holding Pattern % (Dec 2021)	
Promoters	56.9
Institutions	1.6
Non Institutions	41.5
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take:

Zuari Global Limited (ZGL), erstwhile Zuari Industries Limited, in its capacity as holding company has a large portfolio of subsidiaries and associates. It predominantly concentrates on investment in the group companies & is engaged in real estate development. ZGL on a standalone basis derives majority of its income from Interest on loans & advances given to its group companies & dividend income from the large portfolio of investments that it holds & also from its real estate project under development. ZGL being the principal promoter entity advances loans and extends corporate guarantees for many of the group companies to support their operations in various verticals such as agriculture, sugar, heavy engineering, lifestyle and its ancillary business.

The Scheme of Amalgamation between ZGL and Gobind Sugar Mills Limited (GSML) is expected to streamline and rationalize group structure. GSML operates 10,000 tonne crushed per day (TCD) of sugar capacities, which are forward integrated into power and alcohol business with cogeneration capacity of 33 megawatt (MW) and distillery capacity of 100 kilo litre per day (KLPD) in FY21. GSML underwent a massive transformation over the last 5-7 years from being a standalone sugar factory which was exposed to vagaries and cyclicality of sugar business to a fully integrated sugar mill with cogeneration, distillery sugar refinery and an enhanced capacity. The company is forward integrated into cogeneration and distillery operations that de-risk the core sugar business of the company to some extent. The Sugar sector is witnessing tailwinds from higher sugar prices and healthy ethanol demand (in order to achieve fuel blending targets). This merger will make ZGL atleast partially operational company and result in better valuations.

Valuation & Recommendation:

We are positive on the sugar and ethanol business segment of ZGL due to strength from the long track of operations with experienced management team, its integrated nature of operations with forward integration into co-generation and distillery and improved scale of operations and profitability margins. Improving sugar sale prices, export orientation (due to export subsidy), newly commenced Distillery having capacity of 100,000 litres per day and industry supportive trade policies and measures by state and central government could improve the company's future prospects.

Zuari Global Ltd is in progress to monetize its land bank across group companies, which would potentially unlock value for the shareholders and help the company's other businesses to grow. The company has concentrated on development of Affordable Housing segment which is supported by Government of India's PMAY (Pradhan Mantri Awas Yojana) scheme. It plans to realize growth in the housing sales through existing extensive product categories in Zuari Rain Forest, Goa and Zuari Garden City in Mysore. Although execution in this space (through development) is slow; other routes to monetise its land bank would yield better result for shareholders.

We are issuing a report on the company mainly because we believe there is a turnaround story in their sugar and ethanol business, despite their hitherto weak but improving financial profile. Land banks with the group company and investment in listed shares provides a safety net to the investors. Investors may discover value in the stock despite the holding company discounts applicable and the large consolidated debt that could gradually come down over the quarters. We value the stock based on SOTP valuation method, assigning appropriate discount rates to assets. **We think the base case fair value of the stock is Rs 235 and the bull case fair value is Rs 276 over the next 3-4 quarters. Investors can buy the stock in the band of Rs 176-182 and add more on dips to Rs 146-150 band.**

SOTP Calculation:

Particulars (Rs cr)	Base Case	Bull Case
Chambal Fertilisers and Chemicals Ltd (14.8% stake) Holding company discount of 60%	995.8	995.8
Taxmaco Infrastructure and Holdings Ltd (30.8% stake) Holding company discount of 60%	97.4	97.4
Texmaco Rail and Engineering Ltd (9.04% stake) Holding company discount of 60%	48.9	48.9
Mutual Fund*	59.9	59.9
Investment property (at Fair value)* (After 35%/25% discount)	275.2	317.5
Land and construction work-in-progress* (After 25%/20% discount)	612.4	653.2
Sugar Business (7x/9x FY24E PAT) (65.14% stake)	132.6	170.5
Less: Net Borrowings (eliminating long term loan and advances)^	1,531.5	1,531.5
Fair Value of Equity	**690.6**	**811.7**
No. of Shares	2,94,40,604	2,94,40,604
Fair Value per share	**235**	**276**

(*Value as on March 31, 2021; ^Value as of Sep 30, 2021; Source: Company, HDFC sec)

Financial Summary

Particulars (Rs cr)	Q2FY22	Q2FY21	YoY-%	Q2FY21	QoQ-%	FY17	FY18	FY19	FY20	FY21
Total Operating Income	284.9	256.9	10.9	231.3	23.2	603.4	549.7	774.2	771.0	833.8
EBITDA	47.6	8.2	478.5	40.7	16.9	80.8	37.7	81.4	133.2	204.6
Depreciation	6.2	7.5	-16.5	6.6	-5.9	14.8	20.0	20.9	25.5	29.3
Interest Cost	53.8	47.1	14.2	83.7	-35.7	65.9	92.2	113.2	160.3	201.6
Tax	-0.3	-8.7	-96.2	-15.2	-97.8	0.3	3.3	-17.4	71.0	-15.1
PAT	16.5	-4.4	-474.5	-2.3	-825.6	-15.2	-77.7	-35.2	-127.0	-32.9
Adjusted PAT	22.8	-39.6	-157.5	-26.2	-187.0	-25.9	-31.0	-128.4	-367.0	-93.0
EPS (Rs)	7.7	-13.4	-157.6	-8.9	-187.1	-8.8	-10.5	-43.6	-124.6	-30.7
RoE-%						-1.4	-1.4	-5.6	-21.9	-5.9
P/E (x)						-20.3	-16.9	-4.1	-1.4	-5.8
EV/EBITDA (x)						36.9	-48.4	-98.8	254.7	46.6

(Source: Company, HDFC sec)

Q2FY22 Result Review:

The company reported flat topline growth (including other income) of Rs 225.8cr (-1.5%/-2.4% YoY/QoQ). Low revenue growth in sugar business (Rs 123.6cr, -26.4%/-9% YoY/QoQ) impacted its topline growth. Ethanol business reported decent topline growth of 22.7% YoY to Rs 39.5cr. Higher interest income supported overall revenue during the quarter. The company posted EBITDA of Rs 47.6cr vs Rs 40.7cr in the previous quarter. EBITDA margins improved on the back of higher share of interest income and lower other expenses. EBITDA margin for the quarter came in at 21.1% (vs 17.6% in Q1FY22, while it was 3.6% in Q2FY21). Adjusted PAT for Q2FY22 was at Rs 22.7cr as against loss of Rs 26.2cr in the previous quarter, loss of Rs 39.5cr in Q2FY21. Its profitability improved due to better operating results of associates and JVs.

Key Triggers:

Scheme of Amalgamation between ZGL and Gobind Sugar Mills:

A Scheme of Amalgamation was approved between Zuari Global Limited (ZGL) and Gobind Sugar Mills Limited (GSML) and their respective shareholders and creditors vide Board approvals dated 17th July 2020. ZGL through its subsidiary Zuari Investments Ltd (ZIL) holds ~65% stake in GSML. GSML is engaged in the business of manufacture/generation and sale of sugar, molasses, press mud, ethanol and power generation. The appointed date of Amalgamation as per the scheme is 01st April 2020.

The equity shareholders of GSML shall have the option to take either equity shares (swap ratio - 100 shares of ZGL: 285 shares of GSML) or 10.5% Non-Convertible Redeemable Preference Shares (10,000, 10.5% Non-Convertible Redeemable Preference Shares (unlisted) for every

1,006 equity shares of GSML) in ZGL. Preference Shareholders of GSML; would receive 1 Non-Convertible Redeemable Preference Share of ZGL of face value of Rs. 10 each for every 1, 7% Non-Convertible Redeemable Preference Share of GSML of face value of Rs. 10.

The scheme of amalgamation would help in streamlining and rationalising the group structure through consolidation of entities, imparting better management focus and ensuring optimum utilisation of resources.

Sugar Business in a 'sweet' spot:

Gobind Sugar Mills Ltd (GSML) has become one of the leading integrated sugar complex having sugar, power and bio-fuel (Ethanol) in the state of Uttar Pradesh. The company presently has manufacturing facilities at Aira Estate, District Lakhimpur Kheri in UP. GSML has access to three sugarcane producing districts viz. Lakhimpur-Kheri, Sitapur and Bahraich for sugarcane procurement, which sums up to a total of 40,000 hectares of sugarcane cultivable area. GSML has upgraded itself with new technology, which enables the unit to crush 10,000 tons of sugarcane per day. The company has a power cogeneration plant of 33 MW and distillery with installed capacity of 100 kilo litre per day (KLPD). The commercial operations in the distillery segment have started from December 01, 2019.

The plant produces 500 tonnes of molasses and 3,000 tonnes of bagasse every day and it is being used as a biofuel to generate green electricity by burning dry bagasse to produce steam which is used to rotate turbines to produce power. The company is successfully producing green energy via the Co-Generation Power Plant situated within the establishment. The co-generation plant is also selling 22 Mega Watts of power every day to the state of Uttar Pradesh with minimal carbon footprint as compared to conventional sources of power generation.

The state-of-art Distillery Plant is capable of producing multiple products like Ethanol, Rectified Spirit and Extra Neutral Alcohol. The company started the commercial production of the Ethanol at 60 KLPD capacity with effect from December 01, 2019. The relevant statutory approvals in connection with the increase in the capacity from 60 KLPD to 100 KLPD was given by State Level Environmental Impact Assessment Authority, Uttar Pradesh on July 16, 2020. After applying to the State Excise authorities for permission to operate the plant at enhanced capacity, the Distillery started operations at 100 KLPD from Dec 17, 2020. In FY21, it participated in ethanol tender floated by Oil Manufacturing Company (OMC) for ethanol blending in petrol and received ethanol allocation of 18,572 KL from B heavy Molasses and 2,700 KL from C heavy Molasses from different OMCs depots of UP, MP, Bihar, Rajasthan and Jharkhand.

The company entered into a MOU on 04 June, 2021 with M/s AZC, a company incorporated and registered in Slovakia. The JV would develop and operate a Distillery to produce Ethanol in India to supply Ethanol to Government owned Oil marketing companies to meet their blending requirements as specified by the Government of India in the Bio Fuel Policy. The parties also agreed to explore within India the opportunity to grow the business to achieve a total capacity of 1,000 Kilo Litres Per Day (KLPD) of Ethanol more through both organic and inorganic way. Ethanol demand and realizations have been improving over the past couple of years due to the government's focus on ethanol blending programmes and its effort to control sugar production.

Improving sugar sale prices, export orientation (due to export subsidy), newly commenced distillery having capacity of 100,000 litres per day and industry supportive trade policies and measures by state and central government would improve the company's future prospects.

Turnaround in Sugar Business – Integrated business model; to improve its profitability:
GSML underwent a massive transformation over the last 5-7 years from being a standalone sugar factory which was exposed to vagaries and cyclicality of sugar business to a fully integrated sugar mill with cogeneration, distillery sugar refinery and an enhanced capacity. With a capital expenditure of over ~Rs 500cr in last few years, GSML now has an intrinsic flexibility to manage the adverse cyclicality of sugar business. The company is forward integrated into cogeneration and distillery operations that de-risk the core sugar business of the company to some extent.

The company reported topline of Rs 762.7cr in FY21 (up 31.7% YoY). The company started ethanol production with installed capacity of 100 KLPD from Dec 2019; with FY21 being the first full year of operations for this segment, it reported significant growth in ethanol sales from Rs 24cr in FY20 to Rs 107cr in FY21. Sugar realization remained almost stable and stood at Rs. 3288/quintal in FY21 as compared to Rs.3294/quintal in FY20 backed by no change in the sugar MSP which stood at Rs. 31 per kg during the period. The company used B-heavy molasses (instead of C molasses), to produce ethanol, thereby yielding better margin. Its EBITDA margin also improved from 5.1% (FY20) to 12.9% in FY21. After running into losses for many fiscals; this segment reported PAT of Rs 13.26cr as against loss of Rs 74.56cr in FY20.

During FY21, GSML crushed 142.09 Lakhs Quintals (vs 143.20 Lakhs Quintals in FY20) of sugar cane achieving sugar recovery rate of 10.38% (vs 11.66% in the previous fiscal). Sugar recovery was lower due to diversion of B Heavy Molasses for production of Ethanol. Sugar production was 14,75,008 Quintals (previous year 16,69,665 Quintals) and Molasses production was 9,46,963 Quintals (Previous year 6,76,323 Quintals). Owing to better realization and net margins by selling ethanol produced from B molasses, GSML purposefully compromised on the sugar production. The distillery plant of GSML produced ~241.75 lakh litres of ethanol through B (and partly C) molasses route and sold ~210.55 lakh litres whereas the cogeneration unit produced ~111.97 million Units of Power and exported ~78.31 million Units to the UP State Electricity Board.

To boost up the financial health of sugar mills, reduce the cane arrears and to liquidate the surplus stock of Indian sugar, Government of India allocated Mill wise Export Quota with export subsidy of Rs. 6,704/- per MT of sugar exported for Sugar Season (SS) 2020-21. GSML has already exported (till May 2021) ~99.5% of the allocated export quota of ~2,97,330 Quintals. GSML is able to cater to its export requirements with ease due to a strong brand, excellent sugar quality and cordial relations that it enjoys with its international buyers. GSML supplies sugar to countries such as Doha, Nepal, Canada, Bangladesh etc and is in the process of further enlarging its marketing reach.

We are positive on this business segment of ZGL due to strength from the long track of operations with experienced management team, its integrated nature of operations with forward integration into co-generation and distillery and improved scale of operations and profitability margins.

Enhancing its presence on the retail side:

GMSL started with a modest retail sugar operation in Oct 2018, catering to just ~600 MT of refined sugar sale through this segment. With a wide value-added product basket (of 5Kg, 1 Kg, Super Fine 1 Kg, Sachet White/Brown 5gm, Bura 1 Kg, Icing 1 Kg, 25 Kg etc); the company was able to scale up to ~4200 MT in FY20 20 and ~8200 MT of refined sugar in FY21 through this segment. The company now caters to all the major North Indian states such as Delhi, Haryana, Punjab, J&K, Rajasthan, UP, Uttarakhand, Madhya Pradesh, Himachal Pradesh and has future plans to further increase its marketing reach and territory. It intends to make retail segment a major revenue source in near future and is planning sugar sale of ~10-15% through this segment in this fiscal; would improve its margins. The company also has immediate plans to increase its B2B customer base by supplying high grade sugar to pharma and other food processing industries. It is already in advanced stage of taking necessary statutory approvals for various food licenses from Indian Pharmacopoeia and other likewise institutions. Catering to this segment, will further lead to an improved margins from the sugar segment.

Outlook and Expansion Plans (Sugar business):

In FY22, the company expects to maintain or even better its performance than the last year owing to favourable macro-economic conditions in sugar sector. With opening stock of sugar in India estimated around ~8-8.5 million tons (down from ~10.5 million tons in last sugar season) in the beginning of SY 2021-22 and with sugar prices expected to remain strong internationally (owing to fall in sugar production from EU, Brazil and Thailand) favouring export, the company expects the domestic sugar prices to hold (or even better) its current range of Rs 36-37/ Kg.

The company intends to crush upwards of ~132 Lakh Quintals of sugarcane in FY22 and run the 100 KLPD distillery unit full throttle producing more than ~254 lakh litres of ethanol in the process. The company plans to sell ~280 lakh litres of ethanol (with opening stock of ~40 lakh litres in the start of FY22) which will boost its top line and margins. With the government pursuing ethanol blending program vehemently and targeting to achieve 10% blending in FY 21-22 itself, the company does not foresee any constraint in achieving its ethanol sales target. Further, OMCs have been offering 5-year tender (instead of 1 year earlier) indicating strong demand visibility. The company intends to continue using ‘B’ molasses route to produce ethanol for better realization and margins but would be flexible to switch to 'C' molasses, in case there is an uptick in the sugar prices. For the new season the OMCs have raised the price of ethanol to be procured by them to Rs. 63.45 per litre from Rs. 62.65 per litre in the previous season.

As a part of CAPEX plan, the company had put up a 500 tonnes per day (TPD) sugar refinery with the most modern technology. The refined sulphur free sugar manufactured from this refinery is of high-grade quality and has been well received in both domestic and international market.

Gobind Sugar Mills Limited

	FY18	FY19	FY20	FY21
Revenue	**294.33**	**463.85**	**579.00**	**762.74**
Cost of materials consumed	422.15	432.15	486.42	490.58
Changes in inventories	-209.10	-73.96	-24.52	76.52
Gross Profit	**81.28**	**105.65**	**117.10**	**195.65**
Gross Profit Margin (%)	**27.6%**	**22.8%**	**20.2%**	**25.7%**
Employee benefits expense	19.97	24.03	26.78	31.10
Other expenses	32.25	73.24	61.06	65.86
EBITDA	**29.05**	**8.38**	**29.25**	**98.69**
EBITDA Margin	**9.9%**	**1.8%**	**5.1%**	**12.9%**
Depreciation and amortization expense	16.98	18.00	21.23	25.81
Other income	25.17	52.80	41.18	29.46
Finance costs	61.79	69.46	84.27	88.51
Profit/Loss before exceptional items and tax	**-24.56**	**-26.28**	**-35.06**	**13.82**
Exceptional item	0	0	0	-12.02
Profit/Loss before tax	-24.56	-26.28	-35.06	1.81
Income tax expense	-3.98	9.54	39.50	-11.45
Profit for the year	**-20.57**	**-35.82**	**-74.56**	**13.26**
Attributable to non-controlling interests	**-10.72**	**-15.35**	**-25.86**	**4.68**

Revenue - Product-wise	FY18	FY19	FY20	FY21
Sugar	236.73	404.76	483.96	590.01
Ethanol	-	0.00	22.78	110.38
Sale of Power	51.75	57.11	36.27	31.12
By Products - Molasses	3.28	0.27	11.80	1.16
By Products - Press-mud	0.33	0.24	0.16	0.19
By Products - Sanitisers	-	-	-	0.30
Scrap	2.24	1.47	-	-

Operational Parameters	FY18	FY19	FY20	FY21
Sugarcane (in lakh quintals)	123.35	126.20	143.2	142.09
Sugar Recovery rate	10.42%	11.66%	11.66%	10.38%
Sugar Prodn (in quintals)	12,84,776	14,71,172	16,69,665	14,75,008
Molasses Prodn (in quintals)	6,16,305	5,83,087	6,76,323	9,46,963

(Source: Company, HDFC sec)

Real Estate Business – Monetising the land bank through development projects:

ZGL through its wholly owned subsidiary, Zuari Infraworld Ltd engages with direct private equity funds, by inviting joint ventures/joint developments with various capable partners of repute to monetize the land bank of the group. Zuari Infraworld is an ISO9001:2015 & OHSAS18001:2007 certified company having efficient processes to deliver real estate projects on time with quality. Its flagship project in Mysore, Zuari Garden City Project, is an integrated township spread over 73.5 acres. It is the first integrated township in Mysore, located in the outskirts. The project has residential, retail, commercial and office spaces; development of which is divided into phases. The company's JV project – Luxury Residential Tower in Dubai - has built-up area is 8.27 lacs Sqft with uniquely designed uber-luxury Apartments. Funding tie-up for the project is in progress. The company's residential project in Goa is in close proximity to the airport. The land (37 acres) belongs to Zuari Global ltd and is being managed by Zuari Infraworld on a fee basis. The first phase of the project is on 6.8 acres with built up area of 1.67 lakh Sqft comprising of Villas and Apartments. Construction work has been completed, OC (occupancy certificate) obtained and handover of units are in progress. The company's investment property (consolidated) has a book value of Rs 7.61cr; fair market value of Rs 423.3cr as at March-end 2021 (vs Rs 370.4cr as on March 31, 2020). Additionally, the groups' inventories include land and construction WIP of Rs 816.5cr. The realizable value of said properties would be much higher.

The company is in progress to monetize its land bank across group companies, which would potentially unlock value for the shareholders and help the company's other businesses to grow. The Company has concentrated on development of Affordable Housing segment which is supported by Government of India's PMAY (Pradhan Mantri Awas Yojana) scheme. It plans to realize growth in the housing sales through existing extensive product categories in Zuari Rain Forest, Goa and Zuari Garden City in Mysore.

Large equity investment - acts as a safety net:

ZGL has an investment portfolio of Rs 1812.8cr as on March 31, 2021 (Rs 957.3cr as of March 31, 2020) on a consolidated basis comprising investments group companies along with a portfolio of quoted investments. Apart from its investment in subsidiaries and associated (both listed and unlisted), it holds investment in other listed companies and group companies (Chambal Fertilisers and Chemicals ltd, Texmaco Infrastructure and Holdings ltd, Texmaco Rail and Engineering ltd) which has a market value of Rs 2855cr as of the date of the report. Considerable liquid investments in the form of mutual funds and high market value, non-current investments in equities is a big positive. ZGL being the principal promoter entity advances loans and extends corporate guarantees for many of the group companies to support their operations in various verticals. Against such huge investments; the company has large borrowings standing (Rs 1995cr, non-current and current borrowings as at March 31, 2021). Certain investment and land parcels are given as pledge for raising funds.

Investments (Standalone Financials)

Particulars	Quoted/Unquoted	No. of Shares	FV	Value (Rs cr)
Simon India Limited	Unquoted	50,00,000	10	3.50
Zuari Management Services Limited	Unquoted	50,000	10	0.05
Zuari Infraworld India Limited	Unquoted	4,65,50,000	10	54.83
Zuari Investments Limited	Unquoted	1,94,57,364	10	32.59
Zuari Sugar and Power Limited	Unquoted	2,99,00,000	10	31.39
Zuari Finserv Private Limited	Unquoted	2,24,98,426	10	25.00
Zuari Insurance Brokers Limited	Unquoted	28,75,000	10	7.89
Indian Furniture Products Limited (IFPL) (after impairment)	Unquoted	5,07,85,794	10	5.51
Zuari Indian Oiltanking Private Limited (JV)	Unquoted	10,20,000	10	10.02
Forte Furniture Products India Private Limited (JV)	Unquoted	2,18,60,953	10	24.95
Zuari Agro Chemicals Limited (Associate)	Quoted	84,11,601	10	76.46
Mangalore Chemicals & Fertilizers Limited.	Quoted	3,06,194	10	2.21
Biotech Consortium of India Limited	Unquoted	1,00,000	10	0.52
Lionel India Limited (after impairment)	Unquoted	2,58,250	100	0.00
Chambal Fertilisers and Chemicals Ltd	Quoted	5,90,15,360	10	1,351.75
Taxmaco Infrastructure and Holdings Ltd	Quoted	2,64,80,712	1	185.37
Texmaco Rail and Engineering Ltd	Quoted	40,35,000	1	10.77
Indian Furniture Products Limited (Pref Shares)	Unquoted	10,00,000	100	4.30

Investments (Consolidated Financials)

Particulars	Quoted/Unquoted	No. of Shares	FV	Value (Rs cr)
Biotech Consortium of India Limited	Unquoted	1,00,000	10	0.52
Lionel Edward Limited	Unquoted	19,092	100	0.57
Premium Exchange and finance Limited	Unquoted	1,80,240	10	0.06
Master Exchange & Finance Limited	Unquoted	1,88,460	10	0.06
Simon Engineering and Partners LLC (Oman) (less impairment)	Unquoted	9,800	1	0.00
Lionel India Limited (less impairment)	Unquoted	2,58,250	100	0.00
Chambal Fertilisers and Chemicals Ltd (14.8% stake)	Quoted	6,16,20,147	10	1,411.41
Taxmaco Infrastructure and Holdings Ltd (30.8% stake)	Quoted	3,92,91,612	1	275.04
Texmaco Rail and Engineering Ltd (9.04% stake)	Quoted	2,90,98,900	1	77.69
Duke Commerce Limited	Unquoted	24,700	10	0.01
Brajbhumi Nirmaan Private Limited (Pref Shares)	Unquoted	10,00,000	100	6.67

(Note: Data as of March 31, 2021; Source: Company, HDFC sec)

Sugar Sector – Industry Triggers:

The 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 (increased to Rs 31/kg from Rs 29/kg in February 2019) 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. The prices are expected to remain largely range bound only, backed by MSP of Rs 31 per kg. The MSP has supported the sugar prices in recent times amidst extreme glut in sugar sector. Subsidies for export in recent past have been more than a temporary relief for sugar industry. Over the past three years, the glut like situation on domestic front owing to oversupply has led to burgeoning inventory levels. Government has been proactive not only in boosting exports to deal the higher inventory levels but also providing subsidy to sugar mills.

The sugar industry in India is projected to have enough basic raw material i.e. sugar cane both in ongoing SS 20-21 and SS 21-22 owing to good monsoon and higher reservoir level. Due to higher cane acreage the country is expected to produce bumper sugarcane crop in SS 20-21 & SS 21-22. Despite higher projected sugar cane production, the sugar inventory will remain in check owing to diversion towards ethanol, high export momentum and stable domestic demand. Further, increasing diversion towards ethanol through B Heavy and sugar cane juice route due to remunerative prices will benefit profitability of integrated sugar mill. Export momentum is likely to continue in SS 21-22 despite lower export subsidy given the favourable global sugar prices and demand supply situation (on account of expected dip in the Brazilian production due to poor cane crop and reduced crushing capacity)

With ethanol blending by oil marketing companies (OMCs) picking up pace and with the Government’s stance on increasing the blending targets to 20% (by 2025 from earlier 2030) supported by the remunerative ethanol pricing and incentive schemes to build up capacities to achieve the same, the economics of sugar industry are getting better. Furthermore, 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. With increase ethanol capacities & stable sugar prices, we remain positive on the industry as well as on the company over medium term.

Concerns:

Industry risk of the 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, 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. Due to such high interest costs and inefficient operation in certain segment, the company is running into losses.

Huge Interest Burden: ZGL being the principal promoter entity has investments in the subsidiaries & has also advanced them loans & advances & has also extended corporate Guarantees to many of the group companies to support their operations. The company has given loans and advances (long term) of Rs. 534cr as on March 31, 2021. The company has long-term borrowing Rs 1636.7cr as of March 31, 2021. To support group's businesses needs and given its low credit rating; ZGL has a huge interest burden (over Rs 200cr in FY21). The company's finance cost to EBITDA is unfavourable.

Cyclical & Regulated nature of sugar business: The industry is cyclical by nature and is vulnerable to the government policies. The government resorts to various regulations like fixing the raw material prices in the form of State Advised Prices (SAP) and Fair & Remunerative Prices (FRP). The government has fixed Minimum Selling Price (MSP) of sugar currently at Rs.31 per kg. All these factors impact the cultivation patterns of sugarcane in the country and thus affect the profitability of the sugar companies

Working Capital Intensive nature of Operations: 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. However, the company has been de-risk their model by reducing dependence on sugar. The average working capital utilization at maximum level for the twelve months' period ended June 2021 stood high at 94%.

Losses in Engineering Services segment: The company is not able to generate positive returns from its engineering services business. This segment is in negative at EBIT level for last 6 fiscals; dragging the overall profitability lower.

About the company:

Zuari Global Limited (ZGL), erstwhile Zuari Industries Limited, is the holding company of well-established and diversified Adventz Group. Adventz Group is a diversified conglomerate with four major industry verticals- Agriculture, Engineering & Infra, Lifestyle & Real Estate and Services. The USD 3 billion Group is led by Mr Saroj Kumar Poddar (son-in-law of Mr. K.K Birla). ZGL in its capacity as holding company has a large portfolio of subsidiaries and associates and predominantly concentrates on investment in the group companies & is engaged in real estate development. ZGL on a standalone basis derives majority of its income from Interest on loans & advances given to its group companies & dividend income from the large portfolio of investments that it holds & also from its real estate project under development.

ZGL being the principal promoter entity also advances loans and extends corporate guarantees for many of the group companies to support their operations in various verticals such as agriculture, sugar, heavy engineering, lifestyle and its ancillary business.

The Board of Directors has approved a proposed Scheme of Amalgamation between ZGL and Gobind Sugar Mills Limited (GSML). GSML is engaged in the business of manufacture/generation and sale of sugar, molasses, press mud, ethanol and power generation. The merger is expected to streamline and rationalize group structure. The appointed date of amalgamation as per scheme is April 1, 2020.

Key Subsidiaries and JV:

- Simon India Limited (SIL), a wholly-owned subsidiary of Zuari Global, offers technical consultancy, project management and contracting services to chemical, fertiliser, oil & gas, petrochemical, power and other Infrastructure projects
- Zuari Infraworld India Limited, a wholly-owned subsidiary of Zuari Global Limited, represents the group's foray into Real Estate. The company aims to create world-class residential and commercial spaces.
- Gobind Sugar Mills Limited, a subsidiary of Zuari Investments Limited (ZIL) (wholly owned subsidiary of ZGL; engaged in the business of strategic investments). GSML is engaged in the business of manufacture and sale of sugar, molasses, press mud, ethanol.
- Zuari Finserv Limited is offering a wide range of products and services to meet its customer's financial requirements and establishing a strong presence in the financial services sector. The Company is a wholly owned subsidiary of Zuari Global Limited. Zuarimoney.com ("Brand"), which includes Zuari Finserv Limited and its wholly owned subsidiaries i.e. Zuari Insurance Brokers Limited (ZIBL) and Zuari Commodity Trading Limited (ZCTL), having a PAN India presence in the business of investments and financial services e.g. stock and commodity broking, depository participant services, portfolio management, registrar and share transfer agent, distribution of mutual fund products, Insurance Broking.
- Zuari Indian Oiltanking Limited, a 50:50 joint venture between Indian Oiltanking Limited and Zuari Global Limited, offers independent services to Zuari Global Limited, Hindustan Petroleum Corporation Limited and Bharat Petroleum Corporation Limited.
- Zuari Global also has a significant shareholding in Zuari Agro Chemicals, Texmaco Infrastructure & Holdings Ltd., Texmaco Rail & Engineering Ltd., Chambal Fertilisers and Chemicals Ltd.

List of key subsidiaries, Associates, JVs

Name	% Stake	Sub/Ass/JV
Zuari Infraworld India Limited	100%	Subsidiary
Indian Furniture Products Limited	72.45%	Subsidiary
Simon India Limited	100%	Subsidiary
Zuari Management Services Limited	100%	Subsidiary
Zuari Investments Limited (ZIL)	100%	Subsidiary

Gobind Sugar Mills Limited (Subsidiary of ZIL)	65.14%	Subsidiary
Zuari Finserv Limited	100%	Subsidiary
Zuari Insurance Brokers Limited	100%	Subsidiary
Zuari Sugar & Power Limited	100%	Subsidiary
Zuari Infra Middle East Limited (Subsidiary of Zuari Infraworld India Ltd.)	100%	Subsidiary
Zuari Infraworld SJM Elysium Properties LLC	100%	Subsidiary
Zuari Agro Chemicals Limited	32.08%	Associate
New Eros Tradecom Limited	45.05%	Associate
Mangalore Chemicals & Fertilizers Limited	0.26%	Associate
Braj Bhumi Nirmaan Private Limited (including subsidiaries)	25.00%	Associate
Pranati Niketan Private Limited	25.00%	Associate
Darshan Nirmaan Private Limited	25.00%	Associate
Zuari Indian Oiltanking Private Limited	50%	JV
Forte Furniture Products India Private Limited	35.79%	JV
Soundaryaa IFPL Interiors Limited	50%	JV

Segmental Data

Revenue from Operations	FY17	FY18	FY19	FY20	FY21
Sugar	398.23	286.21	440.43	592.86	749.88
Ethanol	0	0	0	24.14	113.19
Real Estate	17.33	21.01	18.93	81.44	31.91
Power	64.31	86.92	93.07	71.29	67.57
Investment Services	15.61	12.64	11.34	14.12	12.91
Management Services	0	3.53	18.38	18.69	19.12
Engineering Services	90.11	190.07	251.68	69.93	7.89
Furniture	105.01	43.78	17.5	5.97	2.62
Total	**690.59**	**644.16**	**851.34**	**878.43**	**1005.1**
Less: Inter Segment Revenues	59.45	89.19	77.15	107.4	171.3
Total Segment Revenue	**631.15**	**554.97**	**774.19**	**771.03**	**833.8**
EBIT Margin (%)	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
Sugar	10.7%	-14.8%	-8.4%	0.2%	5.5%
Ethanol	-	-	-	-21.6%	7.7%
Real Estate	-24.2%	-29.7%	-41.8%	10.8%	0.6%

Power	38.4%	27.3%	31.3%	17.5%	26.2%
Investment Services	11.7%	19.1%	21.8%	25.3%	3.9%
Management Services	-	96.0%	11.3%	-0.3%	0.8%
Engineering Services	-19.3%	-17.4%	-4.5%	-28.1%	-227.5%
Furniture	-9.9%	16.6%	-57.3%	32.5%	41.2%

(Note: Consolidated Data; Source: Company, HDFC sec)

Financials – Consolidated

Income Statement

(Rs Cr)	FY17	FY18	FY19	FY20	FY21
Revenues from operations	603.4	549.7	774.2	771.0	833.8
Other Income	47.0	70.5	99.8	124.7	148.7
Total Income	**650.4**	**620.1**	**874.0**	**895.8**	**982.5**
Growth (%)	**4.8**	**-4.6**	**40.9**	**2.5**	**9.7**
Operating Expenses	569.6	582.4	792.6	762.6	777.9
EBITDA	**80.8**	**37.7**	**81.4**	**133.2**	**204.6**
Growth (%)	**-751.5**	**-53.3**	**115.9**	**63.5**	**53.6**
EBITDA Margin (%)	**12.4**	**6.1**	**9.3**	**14.9**	**20.8**
Depreciation	14.8	20.0	20.9	25.5	29.3
EBIT	**66.0**	**17.7**	**60.5**	**107.7**	**175.4**
Interest expenses	65.9	92.2	113.2	160.3	201.6
PBT	**0.0**	**-74.4**	**-52.7**	**-52.6**	**-26.3**
Exceptional Items	-15.0	0.0	0.0	-3.4	-21.7
Tax	0.3	3.3	-17.4	71.0	-15.1
RPAT	**-15.2**	**-77.7**	**-35.2**	**-127.0**	**-32.9**
APAT	**-25.9**	**-31.0**	**-128.4**	**-367.0**	**-93.0**
Growth (%)	**-32.1**	**19.9**	**313.7**	**185.7**	**-74.7**
EPS	-8.8	-10.5	-43.6	-124.6	-30.7

Balance Sheet

As at March (Rs cr)	FY17	FY18	FY19	FY20	FY21
SOURCE OF FUNDS					
Share Capital	29.4	29.4	29.4	29.4	29.4
Reserves	1880.4	2377.6	2152.4	1137.4	1934.0
Shareholders' Funds	**1909.8**	**2407.0**	**2181.8**	**1166.8**	**1963.4**
Minority Interest	**23.8**	**11.0**	**-3.1**	**-31.8**	**-39.3**
Long Term Debt	430.3	689.8	1028.8	1388.2	1646.0
Net Deferred Taxes	-112.0	-111.7	-127.7	-55.6	-68.2
Long Term Provisions & Others	30.9	66.9	65.3	53.5	34.9
Total Source of Funds	**2282.7**	**3063.0**	**3145.2**	**2521.2**	**3536.8**
APPLICATION OF FUNDS					
Net Block & Goodwill	538.5	550.0	542.9	698.1	664.6
CWIP	12.1	7.6	71.4	2.5	2.2
Other Non-Current Assets	1665.4	2341.8	2134.6	1518.5	2487.3
Total Non-Current Assets	**2216.0**	**2899.4**	**2748.9**	**2219.1**	**3154.2**
Current Investments	0.0	6.2	8.0	6.2	25.2
Inventories	594.7	853.6	1165.3	1270.8	1230.1
Trade Receivables	92.9	130.2	104.3	106.9	91.1
Cash & Equivalents	48.2	39.0	45.3	97.3	148.7
Other Current Assets	170.7	144.1	225.6	180.8	193.4
Total Current Assets	**906.5**	**1173.0**	**1548.5**	**1661.9**	**1688.4**
Short-Term Borrowings	340.5	410.5	309.3	340.1	582.3
Trade Payables	273.7	389.2	396.5	486.9	370.1
Other Current Liab & Provisions	225.6	209.7	447.2	533.3	353.5
Total Current Liabilities	**839.8**	**1009.4**	**1153.0**	**1360.3**	**1305.9**
Net Current Assets	66.7	163.6	395.6	301.7	382.5
Total Application of Funds	**2282.7**	**3063.0**	**3144.2**	**2520.2**	**3536.8**

Zuari Global Ltd.

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Cash Flow Statement

(Rs Cr)	FY17	FY18	FY19	FY20	FY21
Reported PBT	-15.0	-74.4	-52.7	-56.0	-48.0
Non-operating & EO items	-15.7	-24.3	-9.9	-44.8	-31.8
Interest Expenses	73.0	114.1	177.6	190.9	169.0
Depreciation	14.8	20.0	20.9	25.5	29.6
Working Capital Change	36.9	-157.5	-202.2	17.4	-27.3
Tax Paid	14.6	-3.1	21.6	-7.3	18.0
OPERATING CASH FLOW (a)	**108.6**	**-125.2**	**-44.6**	**125.6**	**109.5**
Capex	-9.1	-28.2	-124.4	-92.5	-1.9
Free Cash Flow	99.5	-153.3	-169.0	33.2	107.6
Investments	65.3	-68.2	-3.3	-2.3	41.0
Non-operating income	-61.7	-1.0	14.1	-265.2	-243.5
INVESTING CASH FLOW (b)	**-5.5**	**-97.3**	**-113.6**	**-359.9**	**-204.4**
Debt Issuance / (Repaid)	1.2	293.8	306.7	435.3	290.6
Interest Expenses	-95.4	-106.1	-143.4	-199.8	-194.6
FCFE	5.2	34.4	-5.7	268.6	203.6
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0
Dividend	-3.0	-3.0	-2.9	-2.9	-5.9
Others	-0.6	28.9	-0.6	-0.6	0.0
FINANCING CASH FLOW (c)	**-97.9**	**213.6**	**159.7**	**231.9**	**90.1**
NET CASH FLOW (a+b+c)	**5.3**	**-8.9**	**1.6**	**-2.4**	**-4.8**

One Year Price Chart

(Source: Company, HDFC sec)

Key Ratios

	FY17	FY18	FY19	FY20	FY21
PROFITABILITY RATIOS (%)					
EBITDA Margin	5.6	-6.0	-2.4	1.1	6.7
EBIT Margin	10.9	3.2	7.8	14.0	21.0
APAT Margin	-4.3	-5.6	-16.6	-47.6	-11.1
RoE	-1.4	-1.4	-5.6	-21.9	-5.9
RoCE	2.6	0.6	1.7	3.4	4.9
SOLVENCY RATIO (x)					
Debt/EBITDA	22.8	-33.6	-72.8	204.2	39.9
D/E	0.4	0.5	0.6	1.5	1.1
PER SHARE DATA (Rs)					
EPS	-8.8	-10.5	-43.6	-124.6	-30.7
CEPS	-3.8	-3.8	-36.5	-116.0	-21.6
Dividend	1.0	1.0	1.0	1.0	2.0
BVPS	648.7	817.6	741.1	396.3	666.9
TURNOVER RATIOS (days)					
Debtor days	56.4	74.1	55.3	50.0	43.3
Creditor days	138.2	220.1	185.2	209.1	187.6
VALUATION					
P/E (x)	-20.3	-16.9	-4.1	-1.4	-5.8
P/BV (x)	0.3	0.2	0.2	0.4	0.3
EV/EBITDA (x)	36.9	-48.4	-98.8	254.7	46.6
EV/Revenues (x)	2.1	2.9	2.3	2.8	3.1
Dividend Yield (%)	0.6	0.6	0.6	0.6	1.1
Dividend Payout (%)	-11.4	-9.5	-2.3	-0.8	-6.3

(Source: Company, HDFC sec)

RETAILRESEARCH

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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