Press Release
Gujarat Narmada Valley Fertilizers & Chemicals Limited
September 12, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2000.00	ACUITE AA+ | Stable | Assigned	-
Bank Loan Ratings	1900.00	-	ACUITE A1+ | Assigned
Total Outstanding Quantum (Rs. Cr)	3900.00	-	-

Rating Rationale
Acuite has assigned its long term rating of **ACUITE AA+ (read as ACUITE double A plus)** and the short term rating of **ACUITE A1+ (read as ACUITE A one plus)** on the RS 3,900 Cr bank facilities of **Gujarat Narmada Valley Fertilizers & Chemicals Limited** (GNFC). The outlook is '**Stable**'.

The rating assigned considers the established position of GNFC as one of the largest ammonia and single stream urea manufacturers and largest manufacturer of key chemicals such as Toluene Di-Isocyanate (TDI) in India with vertically integrated operations in fertilisers and chemicals, coupled with the healthy operating efficiency, reflected in the high plant utilisation levels. The ratings factor the superior financial flexibility of the company by virtue of its conservative capital structure, robust credit metrics which further support its superior liquidity profile. Acuité takes note of the improvement in the company's revenue in FY2023, aided by a healthy increase in contribution from industrial chemicals. Moreover, timely payments of subsidy supported the fertiliser segment, despite the sharp increase in natural gas and other raw material prices. However, the operating profits are expected to witness further moderation in FY2024 owing to the softening in profit margins from industrial chemicals and reduction in profitability from urea as the decline in gas prices will lower the gain from energy savings. Even though the company has large capex plans in the medium term for the modernisation, backward integration as well as product diversification, which will be funded mainly by internal accruals, exposing the company to project execution risks, Acuite does not foresee any material impact on the financial risk profile.

The ratings, however, are constrained by the vulnerability of the fertiliser business to regulatory and agro-climatic risks and the high working capital intensity of the operations. While the subsidy payments in recent years have been timely, inadequate increase in subsidies or delays in payments can have an adverse impact on the company's financial profile. The profitability of the chemical division is vulnerable to commodity price cycles, exchange rate fluctuations and potential reduction of import duty.

About the Company
Based in Bharuch (Gujarat), GNFC is engaged mainly in manufacturing of fertilizers such as urea, Ammonium Nitro Phosphate (ANP) and Calcium Ammonium Nitrate (CAN), and industrial chemicals such as methanol, acetic acid, aniline, Toluene Di Isocyanate (TDI), formic acid, and nitric acid. The company also trades in a few fertilizers and chemicals.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of GNFC to arrive at the rating.

Key Rating Drivers

Strengths

Established Market Position

Promoted jointly by the Government of Gujarat (GoG) and Gujarat State Fertilizers and Chemicals Limited (GSFC), Gujarat Narmada Valley Fertilizers and Chemicals Ltd. (GNFC) was incorporated as a public limited company in 1976, with the two promoters cumulatively holding a 41.18% equity stake in it. Subsequently however, the entire shareholding of the GoG was transferred to Gujarat State Investments Limited (GSIL), a GoG undertaking. Further, GNFC is one of the largest ammonia and single stream urea manufacturers along with sole/largest manufacturer of key chemicals such as Toluene Di-Isocyanate (TDI) in India with vertically integrated operations in fertilisers and chemicals. It has established position across the country on the back of its strong market presence. Further, trading of few fertilizers and chemicals helps to provide a wider basket of products to farmers.

Increasing profitability with shift in focus towards chemical business from fertilizer business

The company reported healthy growth in revenues to Rs. 10334.38 Cr in FY23, compared to Rs. 8719.11 Cr in FY22. Even though both the operating margin and PAT margin declined in FY23 following lower realization mainly in the chemical segment, still stood healthy at 19.23 per cent and 14.17 per cent respectively as compared to 28.22 per cent and 19.54 per cent in FY22. Further, both the top line and bottom line of GNFC for Q1FY24 was adversely impacted with the shut down for more than a month, with lower recovery of the fixed overheads and shut-down related expenses. The production volume was impacted along with moderation in the realization of the chemical products.

The chemicals business has remained the prominent driver of GNFC's growth with its contribution increasing from 48 per cent in FY11 to 63 per cent in FY23 and EBIT contribution of more than 95 percent. The top 3 chemical products in terms of contribution to sales were ammonium nitrate, urea, and TDI. The company's stellar performance in FY22 was driven by sharp increase in prices of key chemicals amidst restricted exports from China, supply chain disruption due to Covid-19 and the Ukraine war. However, in FY23, along with the reduction in both aniline and methanol volumes, the realization from the key chemicals also nosedived since Q4FY23, while input costs have remained high, leading to moderation in profitability.
GNFC is the sole producer of Toluene Di–Isocyanate (TDI) with a capacity of 64,000 MTPA in India. India has imposed an antidumping duty on TDI on the imports from China, Japan and Korea. GNFC has the flexibility – it can sell CAN (Calcium ammonia nitrate) directly or convert CAN into TDI and sell it depending upon the market conditions. Acuité expects that the shut-down of TDI plants by both BASF Ludwigshafen and Covestro at global forum, will likely exert upward pressure on TDI prices, and GNFC is expected to reap benefit of the same in the near term coupled with lower gas prices.
With the correction of ammonia prices in the global market in 2023, after the steep highs of 2022 following the geo-political issues, Weak Nitric Acid (WNA) prices also moderated since the Q4FY23 and continued till the Q1FY24 along with fetching lower realization during the monsoon season. However, Acuité expects the prices of ammonia to show an upward trend with the offset of monsoon in the coming quarters, positively impacting the sector sales.
The profitability of the chemical division is vulnerable to commodity price cycles, exchange rate fluctuations and potential reduction of import duty and Acuité expects the operating profits to witness moderation in FY2024 owing to the softening in profit margins from industrial chemicals, constituting more than 95 per cent of the total EBITDA.

The profitability of the fertiliser sector remains vulnerable to the regulatory policies set by the GoI, such as revision in energy norms for urea units and infrequent revision in fixed costs for the units. Sales in the fertiliser sector grew in FY 2023, led by higher availability of funds with farmers due to various policy measures, and the stable farm gate prices maintained by fertiliser companies as a response to the higher subsidy allocation during FY23 to counter the increase in raw material prices. For nutrient-based fertilisers, the average prices for input raw material such as phosphoric acid, rock phosphate and sulphur have started to decline from Q4FY23, led by the decline in natural gas price.

In Q1FY24, with the annual shut down, the production volume of major fertilizer urea was lost, with higher urea energy norms. Further, with the reduction of nutrient based subsidy rates, the rate of subsidy applicable on ANP for FY 23-24 is decreased by 29 per cent from 332991/- per MT to 323504/ - per MT. The company recently launched Nano Urea under the Narmada brand name. Even though the GoI revised the nutrient-based subsidy (NBS) rates downwards for the kharif season, in line with the fall in international fertiliser and key raw material prices, Acuité expects the budgetary allocation of Rs. 1.75 lakh crore for fertiliser subsidy is likely to remain adequate going forward.

Conservative capital Structure

GNFC's capital structure continues to be conservative and the company demonstrated strong free cash flow generation, with a strong net worth position supporting the company's deleveraged capital structure. The tangible net worth of the company improved to Rs.9086.58 Cr as on March 31, 2023 from Rs.7970.07 Cr as on March 31, 2022 mainly on account of accretion of reserves. With higher retained earnings and net worth, the Total outside Liabilities/Tangible Net Worth (TOL/TNW) improved to 0.29 times as on 31st March, 2023 as against 0.34 times as on 31st March, 2022. The robust debt protection metrics of the company is marked by Interest Coverage Ratio at 425.81 times and Debt Service coverage ratio at 295.86 times as on 31st March, 2023, supported by high profitability and nil debt. Net Cash Accruals/Total Debt (NCA/TD) stood high at 892.28 times as on 31st March, 2022. Acuité believes that the company's financial profile has strengthened further in FY2023 and the same is likely to sustain going forward, supported by strong internal accrual generation and no major increase in the company's debt levels even though the company has earmarked a capital expenditure ~Rs 300 Cr in FY24.
In FY22, it has completed debottlenecking of its TDI-II plant (increase in 10,000 MTPA) and formic acid (6800 MTPA) at Dahej and Bharuch facility respectively. CNA plant of 50,000 MTPA started commercial production since July'23. It is also setting up 4MW Solar Power Plant which shall reduce its power cost going ahead. It has started working on projects like that of enhancing ammonia capacity by 50,000 MTPA, Weak Nitric Acid capacity by 2,00,000 MTPA and Ammonium Nitrate Melt by around 1,50,000 MTPA. These plants are expected to be commercialized by FY25-26. Besides, work has already started in respect of coal based captive Steam & Power Plant at Dahej which is expected to bring cost competitiveness to TDI-Dahej operations.

Weaknesses

Working capital intensive nature of operation

The working capital management of the company has improved in FY23, but Gross Current Assets (GCA) still stood high at 161 days in 31st March 2023 as compared to 202 days on 31st March 2022 with increased efficiencies in debtors and inventory management. The GCA days are mainly high because of significant deposits of Rs. 800 Cr kept with a body corporate. The inventory holding improved, although stood moderate at 49 days in FY23 as compared to 57 days in FY22. The improvement in inventory is backed by uptick in the demand. However, the debtor days stood low at only 13 days as on March 31, 2023. Acuité believes that the working capital operations of the company will remain almost at the same levels as evident from efficient collection and moderate inventory holding mechanism over the medium term.

Volatility in raw material prices

Power and fuel are the key cost components for GNFC. Natural gas being an international commodity is subject to price fluctuation. The company is not affected by the price volatility of the natural gas to the extent consumed for Urea as under the Urea pricing formula the cost of natural gas is pass through if the consumption of natural gas is within the permissible norm for manufacturing of Urea. GNFC also deals in purchase of other feed stock materials (i.e Rock phosphate, and Denatured Ethyl Alcohol) which are imported by the company and used in the manufacturing of Ammonium Nitro Phosphate and Ethyl Acetate which are subject to a price and material availability risk. Raw materials and fuel used for chemicals are subject to price volatility and forex fluctuations to the extent these are imported. However, GNFC has so far been able to pass over the increased cost to the consumers though with a lag.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Timely completion of capex without cost overrun
- Further elongation of working capital cycle

All Covenants

Not Applicable

Liquidity Position: Superior

GNFC's superior liquidity is supported by healthy retained cash flows and cash & cash equivalents. The company's has nil repayment obligation against sufficient net cash accruals which stood at Rs.1766.92 Cr as on March 31, 2023. GNFC has unencumbered cash and cash equivalents of over Rs 3600 Cr. Current ratio stood strong at 4.04 times as on 31st March 2023. Moreover, GNFC has sanctioned secured fund-based working capital limits of Rs. 1500 Cr, which largely remained unutilised. Acuité believes the company has sufficient accruals and cash & cash equivalents to finance its capex requirements and incremental working capital needs over the medium term.

Outlook: Stable

Acuité believes that the GNFC will maintain 'Stable' outlook over the medium term from its established market position and experienced management. The outlook may be revised to 'Positive' after the company successfully ramps up its operation and registers growth in revenues while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of non recovery of subsidy resulting in deterioration in their financial risk profile and liquidity position.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	10334.38	8719.11
PAT	Rs. Cr.	1463.98	1703.75
PAT Margin	(%)	14.17	19.54
Total Debt/Tangible Net Worth	Times	0.00	0.00
PBDIT/Interest	Times	425.81	749.48

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

Any other information
Not Applicable

Applicable Criteria
• Default Recognition :- https://www.acuite.in/view-rating-criteria-52.htm
• Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument
In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on **www.acuite.in**.

Rating History :
Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE A1+ | Assigned
Federal Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE A1+ | Assigned
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	125.00	ACUITE A1+ | Assigned
Kotak Mahindra Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	150.00	ACUITE A1+ | Assigned
Kotak Mahindra Bank	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE AA+ | Stable | Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	63.00	ACUITE AA+ | Stable | Assigned
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	690.00	ACUITE AA+ | Stable | Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE AA+ | Stable | Assigned
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	270.00	ACUITE A1+ | Assigned
Bank of Baroda	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	125.00	ACUITE A1+ | Assigned
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	55.00	ACUITE A1+ | Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE A1+ | Assigned
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A1+ | Assigned
Kotak Mahindra Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	75.00	ACUITE AA+ | Stable | Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	230.00	ACUITE AA+ | Stable | Assigned
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Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	567.00	AA+ | Stable | Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1000.00	ACUITE A1+ | Assigned
Federal Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	10.00	ACUITE AA+ | Stable | Assigned
ICICI Bank Ltd	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	10.00	ACUITE AA+ | Stable | Assigned
HDFC Bank Ltd	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	200.00	ACUITE AA+ | Stable | Assigned
Bank of India	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	100.00	ACUITE AA+ | Stable | Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Srijita Chatterjee Lead Analyst-Rating Operations Tel: 022-49294065 srijita.chatterjee@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.