



**Press Release**  
**Gujarat Narmada Valley Fertilizers & Chemicals Limited**  
**February 16, 2024**  
**Rating Reaffirmed**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2000.00	ACUITE AA+   Stable   Reaffirmed	-
Bank Loan Ratings	1900.00	-	ACUITE A1+   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	3900.00	-	-

**Rating Rationale**

Acuite has reaffirmed 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'.

**Rationale for rating reaffirmation**

The rating reaffirmation 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. Acuite 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 company's revenue moderated to Rs.5820 Cr. in 9MFY2024 against Rs.7956 Cr. in 9MFY2023. The operating profitability also moderated to Rs.358 Cr in 9MFY2024 against Rs.1511 Cr. in 9MFY2023. The moderation is on account of lower realisations and increased input and fixed costs although the volumes have not been affected much. This trend is expected to continue in the near term.

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.

Going ahead, the level of moderation in company's operating performance and its impact on overall credit risk profile of the company will remain a key monitorable.



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.

## Unsupported Rating

Not Applicable

## 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 41.30% 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.

#### Healthy operating performance in FY2023; albeit moderation in 9MFY2024

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, the chemical business 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.

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.

Further, the company has reported moderation in both the top line and bottom line in 9MFY24, impacted mainly due to lower sales realisations, high input costs and fixed costs, although volumes have not been affected much. The company's revenue moderated to Rs.5820 Cr in 9MFY2024 against Rs.7956 Cr in 9MFY2023. The operating profitability also moderated to Rs.358 Cr in 9MFY2024 against Rs.1511 Cr in 9MFY2023. Going ahead, the impact of the moderating trend in operating performance on the overall financial risk profile and liquidity position in near term will remain a key monitorable.

## 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
- Significant moderation in operating revenues and profitability

### **Liquidity Position** **Strong**

GNFC's strong 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 and or significant deterioration in the operating revenues and profitability resulting in deterioration in their financial risk profile and liquidity position.

### **Other Factors affecting Rating**

None

## 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

None

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <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, Acuite 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](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
12 Sep 2023	Cash Credit	Long Term	63.00	ACUITE AA+   Stable (Assigned)
	Bank Guarantee	Short Term	150.00	ACUITE A1+ (Assigned)
	Cash Credit	Long Term	5.00	ACUITE AA+   Stable (Assigned)
	Bank Guarantee	Short Term	125.00	ACUITE A1+ (Assigned)
	Working Capital Demand Loan	Long Term	100.00	ACUITE AA+   Stable (Assigned)
	Packing Credit	Long Term	75.00	ACUITE AA+   Stable (Assigned)
	Bank Guarantee	Short Term	50.00	ACUITE A1+ (Assigned)
	Letter of Credit	Short Term	125.00	ACUITE A1+ (Assigned)
	Proposed Bank Facility	Short Term	1000.00	ACUITE A1+ (Assigned)
	Working Capital Demand Loan	Long Term	10.00	ACUITE AA+   Stable (Assigned)
	Letter of Credit	Short Term	55.00	ACUITE A1+ (Assigned)
	Working Capital Demand Loan	Long Term	200.00	ACUITE AA+   Stable (Assigned)
	Letter of Credit	Short Term	25.00	ACUITE A1+ (Assigned)
	Letter of Credit	Short Term	270.00	ACUITE A1+ (Assigned)
	Cash Credit	Long Term	690.00	ACUITE AA+   Stable (Assigned)
	Bank Guarantee	Short Term	50.00	ACUITE A1+ (Assigned)
	Proposed Bank Facility	Long Term	230.00	ACUITE AA+   Stable (Assigned)
	Proposed Bank Facility	Long Term	567.00	ACUITE AA+   Stable (Assigned)
	Working Capital Demand Loan	Long Term	10.00	ACUITE AA+   Stable (Assigned)
	Bills Discounting	Long Term	50.00	ACUITE AA+   Stable (Assigned)
	Letter of Credit	Short Term	50.00	ACUITE A1+ (Assigned)



## 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 avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	50.00	ACUITE A1+   Reaffirmed
Federal Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	50.00	ACUITE A1+   Reaffirmed
State Bank of India	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	125.00	ACUITE A1+   Reaffirmed
Kotak Mahindra Bank	Not avl. / Not appl.	Bank Guarantee/Letter of Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	150.00	ACUITE A1+   Reaffirmed
Kotak Mahindra Bank	Not avl. / Not appl.	Bills Discounting	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	50.00	ACUITE AA+   Stable   Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	63.00	ACUITE AA+   Stable   Reaffirmed
Bank of Baroda	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	690.00	ACUITE AA+   Stable   Reaffirmed
State Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE AA+   Stable   Reaffirmed
Bank of Baroda	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	270.00	ACUITE A1+   Reaffirmed
Bank of Baroda	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	125.00	ACUITE A1+   Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	55.00	ACUITE A1+   Reaffirmed
State Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	50.00	ACUITE A1+   Reaffirmed
Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	25.00	ACUITE A1+   Reaffirmed



Kotak Mahindra Bank	Not avl. / Not appl.	PC/PCFC	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	75.00	ACUITE AA+   Stable   Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	230.00	ACUITE AA+   Stable   Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	567.00	ACUITE AA+   Stable   Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1000.00	ACUITE A1+   Reaffirmed
Federal Bank	Not avl. / Not appl.	Working Capital Demand Loan (WC DL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE AA+   Stable   Reaffirmed
ICICI Bank Ltd	Not avl. / Not appl.	Working Capital Demand Loan (WC DL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE AA+   Stable   Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Working Capital Demand Loan (WC DL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	200.00	ACUITE AA+   Stable   Reaffirmed
Bank of India	Not avl. / Not appl.	Working Capital Demand Loan (WC DL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	100.00	ACUITE AA+   Stable   Reaffirmed

## Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 <a href="mailto:mohit.jain@acuite.in">mohit.jain@acuite.in</a>  Pradeep Singh Senior Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:pradeep.singh@acuite.in">pradeep.singh@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### About Acuité Ratings & Research

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