# Gujarat Narmada Valley Fertilizers and Chemicals Limited

**August 29, 2018**

## Summary of rated instruments

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Term Loans | 792.00 | - | |
| Fund Based facilities | 1500.00 | 1500.00 | Upgraded to [ICRA]AA+(Stable) from [ICRA]AA(Stable) |
| Non-Fund Based facilities | 900.00 | 900.00 | [ICRA]A1+; Reaffirmed |
| Commercial Paper Programme | 1000.00 | 1000.00 | [ICRA]A1+; Reaffirmed |
| **Total** | **4192.00** | **3400.00** | |

## Rating action

ICRA has upgraded the long term rating to [ICRA]AA+ (pronounced as ICRA double A plus) from [ICRA]AA (pronounced as ICRA double A) for the Rs 1500[1] crore fund based limits of Gujarat Narmada Valley Fertilizers and Chemicals Limited (GNFC)[2]; the outlook on the long-term rating is Stable†. ICRA has also reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating to the Rs 900 crore non fund-based limits and the Rs 1000 crore commercial paper programme of GNFC.

## Rationale

The rating upgrade factors in the strong improvement in the financial risk profile of the company supported by healthy performance of the chemical division, driven largely by healthy capacity utilization and contribution margins from Chemicals, majorly driven by TDI (Toluene Di-isocyanate) segment over the last two years, which ICRA expects to be sustained over the medium term as well. Supported by the healthy internal accruals and receipt of capital subsidy, the company has undertaken large scale de-leveraging with a long term loans pre-paid over FY2017-FY2019.

The ratings continue to factor in the established market position of GNFC in the fertilisers business (with its fertilizer brand Narmada' being well entrenched within the farmer community especially in Gujarat), market leadership in chemicals business for products including Acetic acid, Aniline and TDI, diverse chemicals product portfolio with vertical integration benefits and the stable demand outlook for key chemicals. The ratings also take into account the successful ramp-up and stabilisation of production from the TDI-Dahej plant. Further, continued improvement in realisation for TDI due to higher global prices should result in improved profitability in FY 2019. ICRA notes that the implementation of gas pooling mechanism has ensured un-interrupted gas supply and reduced the uncertainty on working capital management. Further, the company has been receiving the capital subsidy on its ammonia feedstock conversion project which will continue to support liquidity position in FY2019 (till September 2018). The ratings also take into account the company's high financial flexibility characterised by an improvement in coverage metrics and capital structure owing to lower debt levels.
However, the ratings remain constrained by the continuing losses in the fertiliser business, partly due to one-time reversals of subsidy income. The ratings are further constrained by the vulnerability of fertiliser division's profitability to regulatory policies and agro-climatic risks, commodity price risk associated with its chemicals business and the

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

vulnerability of its cost structure due to fluctuation in prices of gas which is consumed in chemicals and non-urea fertilisers business. ICRA also notes that the company has achieved lower than the projected energy efficiency levels post the ASGP project, however the company has been receiving a significant part of the expected subsidy. Also, while the company has shelved plans for Urea expansion, the company has other relatively smaller chemicals / efficiency improvement projects in the pipeline which would entail funding, execution and market risks. Going forward, ICRA expects the profitability of GNFC to be supported in the near term on account of the healthy contribution levels in TDI segment while capex towards improvement of energy efficiency of urea operations is expected to lead to improvement in overall profitability of the fertiliser segment in the medium term. Some chemical segments are facing temporary pricing pressures, however, over the long term, as prices of chemicals revive, margins should improve on account of the competitive advantage that GNFC holds in the domestic market. Given that there are no immediate large capex plans, with the healthy anticipated cash generation, the company's key debt protection metrics are expected to continue to remain comfortable.

## Outlook: Stable

ICRA expects GNFC's operations to remain steady driven by its strong portfolio of chemicals, sovereign ownership and healthy demand indicators. The outlook may be revised to 'Positive' if there is a significant improvement in the company's profitability levels and return indicators. The outlook may be revised to 'Negative' if there is a sharp drop in international prices of key chemicals manufactured by GNFC that could lead to moderation in overall profitability, any large sized capex or large investments.

## Key rating drivers

## Credit strengths

- **Healthy financial risk profile characterized by strong revenue growth, healthy profitability, low gearing and comfortable liquidity position:** Strong performance of the chemical division has helped in registering a 25% revenue growth in FY2018 on a yoy basis while operating profitability improved from 17% in FY2017 to 25% in FY2018. Healthy cash accruals driven by improvement in profitability coupled with on-going disbursement of capital subsidy has helped in prepaying almost its entire long term debt over FY2017 and FY2018 resulting in a drop in overall debt levels as on March 31, 2018 to Rs.303 crore vis-à-vis Rs.1959 crore as on March 31, 2017. Accordingly, gearing has come down to 0.07 time while coverage metric for GNFC have improved in FY2018 with OPBDIT/I&F at 14.8 times, NCA/Debt at 346% and Total Debt/OPBDIT at 0.21 times.

- **Financial flexibility arising from unutilized bank limits and access to low cost funds from state government financial institutions:** The company's liquidity position has remained comfortable due to its high financial flexibility and access to unused bank credit limits. The company currently operates with cash credit limits from Rs 1500 crore to further support liquidity. The average fund based working capital utilization for the period April 2017 to June 2018 was at around 26% of sanctioned limits which was also supported by healthy cash accruals and drop in outstanding subsidy levels.

- **Healthy volumes and uptick in TDI realisation have driven improvement in overall financial risk profile:** GNFC's profitability for TDI is dependent upon the spreads between prices of TDI and Toluene, among others. FY2016 remained the worst year in a decade with average prices dropping to ~US$1600/MT partly due to capacity expansions in Europe and China. Average TDI prices however staged a recovery since FY2017 to ~US$2800/MT which further increased to ~US$4000/MT in FY2018. TDI prices continue to remain firm at ~US$~3900-4100/MT in Q1FY2019. Accordingly, improvement in contribution margin on TDI has helped in posting healthy improvement in profitability.

- **Established track record in both fertilisers and chemicals businesses:** GNFC has a long track record in the manufacturing of fertilisers such as urea, Ammonium Nitro Phosphate (ANP) and industrial chemicals such as TDI, methanol, acetic acid, formic acid and nitric acids. Besides manufacture and marketing of the above products, GNFC also trades in fertilisers such as Di-ammonium Phosphate (DAP) (both imported as well as indigenous), Muriate of Potash (MOP) and ammonium sulphate, industrial chemicals such as methanol and acetic acid. The contribution of fertilisers to total revenue was around 29% of the overall sales, while chemicals contributed around 67% of sales in FY2018. The company also operates an IT products division and other small segments that contributed 3% to total operating income in FY2018.

- **Strong brand equity in the fertiliser business; market leadership in the chemicals business:** GNFC sells its fertilisers under the brand Narmada through a number of co-operative societies, dealers and sub-dealers. The company's marketing network is on a par with that of industry leaders and is relatively stronger in its home state of Gujarat. With a strong brand equity built over the years, the company has been able to sell its entire production while also increasing its share of sales in Gujarat. GNFC sells urea primarily in Gujarat, Madhya Pradesh, Maharashtra, Rajasthan and Uttar Pradesh.

- **Product diversity and vertical integration benefits have helped the company in maintaining profitable operations in times of extreme price volatilities for a particular product segment:** The operations of GNFC are characterised by a high level of vertical integration across its fertilisers and chemicals, thereby allowing high value addition and diversification. The strength of the company lies in its product diversity and ability to switch between product streams in tune with market conditions.

## Credit challenges

- **High dependence on the chemical division's profitability for the overall net cash accruals continues***:* As the fertiliser business continues to be a drag in terms of profitability, the company's chemicals division continues to account for majority of the profitability, which though has remained robust over the years.

- **Vulnerability of chemical divisions' profitability to the fluctuations in natural gas prices, cyclicality, fall in import duty levels and exchange fluctuations:** GNFC's profitability is vulnerable to cyclicality in prices of industrial chemicals and fluctuations in natural gas prices. The reduction in duty differential for imported chemicals could impact the company's profitability. Moreover, because of the import parity pricing of these products for domestic sales, GNFC's profit margins remain exposed to adverse fluctuations in INR-US dollar exchange rates.

- **Fertiliser business remains exposed to regulatory and monsoon related risks:** With the notification of New Urea Policy 2015, urea units in the country are categorized into three groups on the basis of their energy efficiency. Of the three groupings, GNFC's unit falls under Group-II (Pre-set norms between 6 GCal/MT and 7 GCal/MT). GNFC has made losses/small profit in the past few years due to various under recoveries in subsidy mechanism relating to conversion costs and fixed costs. However, with on-going capex towards improving energy efficiency levels, the company plans to cut-down on under-recoveries in the medium term (by improving efficiency to 6.2GCal/MT by end of FY2020 from existing levels of~6.41GCal/MT). Moreover, agriculture sector in India remains vulnerable to the vagaries of monsoon as the area under irrigation remains low which results in volatility in the sales and profitability of the fertiliser sector.

- **Moderate sized capex plans in the pipeline which would entail moderate funding, execution and market risks:** GNFC is currently considering several new medium scale projects. The execution period is likely to be 2-3 years from commencement of the project with annual capex estimated at ~Rs.150-200 crore. These include investment in a Joint Venture with a Belgian JV partner Ecophos at Dahej in which GNFC has limited commitment over next 3 years towards. The other plans include expansion of formic acid and nitric acid add-on capacities at Bharuch which are still at conceptual stage while other capex plans include scaling up neem based FMCG products as well as setting up a 5 MW solar plant.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

**Links to applicable criteria:**
[Rating Methodology for Entities in the Fertiliser Industry]
[Rating Methodology for Entities in the Chemical Industry]

## About the company:

Promoted jointly by the Government of Gujarat (GoG) and Gujarat State Fertilizers and Chemicals Limited (GSFC), 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. Based in Bharuch (Gujarat), GNFC is engaged mainly in the manufacture of fertilisers 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 fertilisers and chemicals. The Company also provides IT services and solutions covering Digital Signatures Certificate (DSC), E-procurement, E-Governance projects, Data centres and CCTV surveillance systems etc. under Brand name of (n)code solutions and is the market leader in Digital Certificate business.

## Key Financial Indicators (Audited)

| | FY2017 | FY2018 |
|---|---|---|
| Operating Income (Rs. crore) | 4,724 | 5,919 |
| PAT (Rs. crore) | 521 | 790 |
| OPBDIT/ OI (%) | 16.69% | 24.88% |
| RoCE (%) | 14.36% | 22.21% |
| | | |
| Total Debt/ TNW (times) | 0.52 | 0.07 |
| Total Debt/ OPBDIT (times) | 2.48 | 0.21 |
| Interest coverage (times) | 3.88 | 14.77 |

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years:

| | Instrument | Current Rating (FY2019) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs Crore) | Date & Rating in FY2019 | Date & Rating in FY2018 | Date & Rating in FY2017 | |
| | | | | | August 2018 | August 2017 | November 2016 | July 2016 |
| 1 | Long Term Fund Based-CC | Long Term | 1500 | - | [ICRA]AA+ (Stable) | [ICRA]AA (Stable) | [ICRA]AA- (Stable) | [ICRA]AA- (Stable) |
| 2 | Long Term Fund Based-Term Loan | Long Term | 0 | - | - | [ICRA]AA (Stable) | [ICRA]AA- (Stable) | [ICRA]AA- (Stable) |
| 3 | Short Term Non Fund Based Limits | Short Term | 900 | - | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |
| 4 | Commercial Paper | Short Term | 1000 | - | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |

## 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 No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Cash Credit | NA | NA | - | 1500 | [ICRA]AA+ (Stable) |
| NA | Non Fund Based | NA | NA | - | 900 | [ICRA]A1+ |
| NA | Commercial Paper | NA | NA | - | 1000 | [ICRA]A1+ |

Source: Gujarat Narmada Valley Fertilizers and Chemicals Limited

## ANALYST CONTACTS

**K.Ravichandran**
+91 44 45964301
ravichandran@icraindia.com

**Aashay Choksey**
+91 79 4027 1526
aashay.choksey@icraindia.com

**Ankit Patel**
+91 79 4027 1509
ankit.patel@icraindia.com

## RELATIONSHIP CONTACT

**L Shivakumar**
+91 22 6114 3406
shivakumar@icraindia.com

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com

## Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

## 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

## ICRA Limited

**Corporate Office**
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

**Registered Office**
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

**Branches**

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999