Gujarat Narmada Valley Fertilizers and Chemicals Limited

Instrument	Amount	Rating Action
Long term Bond Programme	Rs 1300 Crore	[ICRA]AA-(Stable) withdrawn
Term Loans	Reduced to Rs 1263 Crore from Rs 2191 Crore	[ICRA]AA-(Stable) reaffirmed
Fund Based facilities	Enhanced to Rs 1500 Crore from Rs 1200 Crore	[ICRA]AA-(Stable) reaffirmed
Non Fund Based facilities	Rs 900 Crore	[ICRA]A1+ reaffirmed
Commercial Paper Programme	Enhanced from Rs 750 crore to Rs 1000 crore	[ICRA]A1+ reaffirmed

ICRA has reaffirmed the rating of [ICRA]AA- (pronounced as ICRA double A minus) to the Rs 1263 crore term loans(reduced from Rs 2191 crore) and the Rs 1500 crore (enhanced from Rs 1200 crore) fund based limits of GNFC; 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 (enhanced from Rs 750 crore) of GNFC. ICRA has withdrawn the [ICRA]AA- (pronounced ICRA double A minus) rating assigned earlier to the Rs. 1300 crore long term bond programme of Gujarat Narmada Valley Fertilizers and Chemicals Ltd at the request of the company and there is no amount outstanding against the rated instrument.

The reaffirmed ratings continue to reflect the strengths of the company such as established market position in fertilizers business (with its fertilizer brand Narmada being well entrenched within the farmer community especially in Gujarat), market leadership in chemicals business for products including Methanol, Acetic acid, Aniline and TDI, diverse chemicals product portfolio with vertical integration benefits and the stable demand outlook for key chemicals (Aniline and TDI). The ratings also take into account the successful stabilisation of production from the TDI-Dahej plant which has been resulting in significant losses in the last two years, which supported by higher contribution margins in the current year should result in improved profitability in FY 2017. 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 is receiving the capital subsidy on its ammonia feedstock conversion project and this will continue to ease the liquidity position going forward. The ratings also take into account the company's current modest financial risk profile and its high financial flexibility.

However, the ratings remain constrained by the modest returns overall which are largely on account of the continuing losses in the Urea business and the losses in the TDI segment in FY 2016. The ratings are further constrained by the vulnerability of fertilizer division's profitability to regulatory policies and agro-climatic risks, commodity price risk associated with its chemicals business and the 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 resulting in rising subsidy receivables as subsidy is being paid based on initially approved energy efficiency levels, pending approval for higher energy consumption. Going forward, the ability of the company to achieve high capacity utilization and meaningful returns from the Dahej TDI capacity as well as the ability to tie up the future gas requirements for its chemicals business at cost competitive rates would remain key rating sensitivities. 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 improve in the near term on account of the improvement in contribution levels from TDI segment. Some chemical segments are facing pricing temporary 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. Despite the pressure on profitability in the near term, given that there are no immediate large capex plans, with the anticipated cash generation and capital subsidy reimbursement, the company's key debt protection metrics are expected to remain adequate. However, timely receipt of capital subsidy against the feedstock conversion project will continue to be crucial for managing the cash flows.

Company Profile

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 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. 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.

During FY 2015-16, GNFC reported a net profit (PAT) of Rs 226 crore on an operating income of Rs 4583 crore. For previous year, FY 2014-15, GNFC had reported a net loss of Rs 452 crore on an operating income of 4675 crore.

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