Gujarat Narmada Valley Fertilizers and Chemicals Limited

Instrument	Amount	Rating
Long term Bond Programme	Rs 1300 Crore	[ICRA]AA-(Stable) reaffirmed
Term Loans	Rs 2191 Crore	[ICRA]AA-(Stable) reaffirmed
Fund Based facilities	Enhanced to Rs 1200 Crore from Rs 800 Crore	[ICRA]AA-(Stable) reaffirmed
Non Fund Based facilities	Rs 900 Crore	[ICRA]A1+ reaffirmed
Commercial Paper Programme	Rs 300 crore	[ICRA]A1+ reaffirmed

ICRA has reaffirmed the rating of [ICRA]AA- (pronounced as ICRA double A minus) to the Rs 1300 crore^ long term bond programme, Rs 2191 crore term loans and the Rs 1200 crore (enhanced from Rs 800 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 300 crore Commercial Paper programme of GNFC.

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 and pricing outlook for key chemicals (Aniline and TDI) during FY2015. Further, the company has started receiving of the capital subsidy on its feedstock conversion project in May 2015, and its timely payment 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 negative impact on returns from the recently commissioned greenfield TDI project resulting from the significant time and cost overruns. The project also faced stabilization issues post the declaration of COD in March 2014 and eventual commencement of operations in December 2014. In the meanwhile, TDI prices have crashed which resulted in the company booking a one-time impairment loss in FY 15 to account for the lower projected returns at current prices, apart from interest and depreciation related losses. Besides, the weak fertiliser division performance in FY15 is a concern, although profitability should improve in the coming years. 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 weakening of its cost structure due to proposed increase in prices of gas consumed in chemicals and non-urea fertilisers business. Going forward, the ability of the company to achieve high capacity utilization 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.

Delay in subsidy receipt during FY 2015 (similar to previous two years), resulted in a higher receivable position and consequently the longer operating cycle results in a higher working capital requirement. A sizeable proportion of the outstanding subsidy as on March 2015, however, has been cleared in Q1FY 2015. However, the budget allocation for urea subsidy in 2015-16 is again estimated to be significantly lower than the actual requirement due to carry over subsidy from previous years. Accordingly, subsidy receivables may continue to remain high in the medium term, unless there is a change in the pricing/subsidy policy of urea. Nevertheless, the company's liquidity position remains comfortable due to its high financial flexibility and access to unused bank credit limits.

Going forward, ICRA expects the profitability of GNFC to remain under pressure in the near term on account of the low prevailing contribution levels in key chemical segments and plant stabilisation issues being faced at Dahej project. Once production levels rise and prices revive, GNFC would also be exposed to market risks associated with the expanded capacity of TDI. High capacity utilisation of the unit at an early stage is crucial for generation of optimal returns from the project. Over the long term, as prices revive, chemical 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 all capex plans completed, 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 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.

During FY 2014-15, GNFC reported a net loss of Rs 452 crore on an operating income of 4675 crore. For previous year FY 2013-14, GNFC reported a profit after tax (PAT) of Rs 292 crore on an operating income of 4878 crore.

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