THE FREE PRESS JOURNAL | PG-5 | JULY 9, 2018

GNFC continues to surge ahead of its peers

DR. RAJIV KUMAR GUPTA IAS
MD, GNFC

Of late there has been an increased interest in Gujarat Narmada Valley Fertilizer & Chemicals Limited (GNFC) observed in the corporate world by investors and media as well, as GNFC has made the headlines not just for its outstanding business performance but also for its earnest attempt towards significantly contributing to Honorable Prime Minister's schemes and initiatives such as 100% Neem Coating of Urea, Digital India, Make in India and doubling the farmers income.

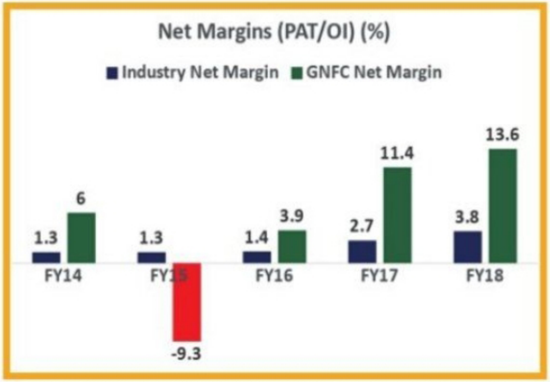
GNFC has been rated as the 3rd best Chemical Company based on total income criteria in Dun & Bradstreet's India's top 500 companies' 2018 publication. The company also won the Porter prize for the second consecutive year for creating shared values this year for its Cashless initiative. Porter Prize is named after the renowned Harvard University Academic Prof. Michael E. Porter, known for his theories on economics, business strategy, and social causes. Last year the company had won the same award for its innovative NEEM project.

Straightaway for the second consecutive year, GNFC has outshone all its major peers in the fertilizer and chemicals industry. As per the peer comparison report by leading rating agency ICRA - "In terms of net profitability, supported by healthy improvement in operating profitability, and lower interest and finance cost, GNFC continues to post the highest net margins in the industry at ~13% in FY2018, while other peers have reported net margins between ~-3% to ~8%."

GNFC has given ample reasons for its investors to cheer about, with an elegant Return on equity (ROE) of 19 %, almost double of fertilizer companies (also in chemical business) such as Deepak fertilizers, RCF and GSFC. GNFC has topped in various financial metrics like ROCE, Operating margin, net profit margin, interest coverage ratio, Debt/OPBIDTA ratio and Net cash accrual/total debt ratio on comparison with Urea manufacturers, Urea & complex fertilizer manufacturers and Fertilizer & chemical manufacturers.

GNFC is the only player in the industry to consistently bring down overall debt levels over FY15-18 with one of the sharpest debt reduction undertaken during FY17 and FY18. The company is the only public sector undertaking (PSU) of India to not just have repaid but pre-paid its debt. The company made a total payment of INR 888 crores towards its debt obligations in FY17 out of which INR 534 crores was pre-payment. Consequently, the company has a healthy interest coverage ratio of 15.37, significantly higher than other fertilizer majors such as IFFCO and CIL.

Reduction in the interest costs on account of debt reduction over the years has led to increase in net margins. Among its pees in the fertilizers sector, GNFC is the only company which recorded a double digit net margin level over the last two years mainly due to cascading effect of improved operating margins and reduction in debt.



As per the ICRA report, "In terms of Net Cash Accruals to Total Debt, GNFC remains the best placed at 39% in FY2017 and 462% in FY2018, while most of the peers remained between ~-2 to 57%. GNFC's debtor days was one of the lowest at 69 days, while most of the peers reported very high receivables position ranging between ~120 to 200 days. Aided by lower debtor levels, working capital intensity (NWC/OI) for GNFC remained one of the lowest at 17% with most peers reporting NWC/OI between 32% to 53%."

GNFC has posted the highest returns on capital employed in the industry for FY2018 at 22.36% while most of the other peers have reported RoCE in the range of 3-21%. CIL with a largely different product basket has reported the second highest RoCE.

A report by the global analytical company CRISIL highlights that "GNFC stands out amongst all its peers for its higher operating margins (23.8%) on account of improved operational efficiency and utilization." Peers such as GSFC, IFFCO, Coromandel International Limited (CIL) have struggled between 3–12 % - a stark performance difference. For GNFC, operating costs such as raw material, employee expenses and power costs have decreased as a percentage of sales as compared to fiscal 2017. This can be attributed to the strategic business restructuring by the company's sagacious leader Dr. Rajiv Kumar Gupta IAS.

The turnaround of GNFC from a moribund loss-making company to have achieved historically highest ever profits is a result of multiple proactive steps taken by the company's management while focusing on key financial metrics, such as:

- Dynamic Pricing Policy for better realizations. Before 2014 the company used to change the prices of its products on an average of 9 times a year, now they change it almost 25 times a year, according to the market conditions.
- Input cost savings of more than INR 790 crores over last 5 years by adopting a new process of multilayered, hard negotiations.
- Introduction of measures for Safety, Operational Stability and Increase in throughput for TDI-II Greenfield plant. As at FY18, the capacity utilization stood at 93% as against 80% of average operating rates across the globe.
- Long-term feed stock and raw material sourcing contracts. For continued and reliable production, key raw material feedstock tie-ups have been signed on mid-term/long-term basis
- For ensuring smooth sales of regularly produced output, volume contracts have been entered with key strategic customers.

Besides achieving astonishing results GNFC has been contributing on multiple fronts to various initiatives of the Government of India:

- Since its inception GNFC is involved in making chemicals that are major import substitutes. Through this GNFC significantly contributes to honorable PM's program of Make in India, saving close to a billion dollars of foreign exchange.
- Recently the company signed an MoU with the NITI Aayog to use Blockchain technology for fertilizer subsidy disbursement which will enhance overall efficiency, transparency and authenticity of the system helping the farmer in the long-term. GNFC is the first company in India to use such smart technology in the interest of famers.
- Fulfilling Honorable Prime Minister's vision of 100% Neem coating of Urea, GNFC implemented the Neem project through backward and forward integration, generating more than INR 45 crore income for 4.5 lakh women in 53 districts across six states leading to women empowerment.
- GNFC was the flagbearer in supporting Digital India initiative as well, as GNFC's township is the first cashless township of India. Its model was adopted and replicated by the NITI Aayog and GNFC has facilitated over 150 townships across 22 states for seamless transition from cash to cashless economy

This stellar performance of the company has attracted major foreign institutional investors. Interestingly, there are has been 157% increase in the number of Foreign Portfolio investors (FPIs), who have invested in GNFC equity in the last two years, with World Bank Pension Fund being the latest entrant.

Owing to strong internal accruals the company is now poised for future growth with capacity expansion in plants like Acetic Acid, Formic Acid, Concentrated Nitric Acid and Ammonia. The company is also eyeing at a turnover of INR 500 crores from its Neem segment over the next 5 years.