Nagarjuna Fertilizers & Chemicals Ltd — FY 2023 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	Nagarjuna Fertilizers is attempting a high-risk transition from a manufacturing-heavy model to an asset-light distribution strategy following the total breakdown of its core operations and a proposed □1,700 Cr slump sale of key assets.	Neutral
2	**Top-line revenue surged 110% YoY to □5,642 Cr, though this growth is fundamentally low-quality as it reflects a pass-through of volatile gas prices and carries an 89% concentration risk toward government subsidies.**	Positive
3	***Operating profitability collapsed to - 595 Cr, driven by a 115% spike in raw material gas costs and a massive 675.19 Cr impairment charge on the Kakinada plant due to deferred maintenance.***	Negative
4	***The company is technically insolvent with a negative Net Worth of - 2,069.77 Cr and accumulated losses of 2,130 Cr, resulting in a value-destructive ROCE of -57%.***	Negative
5	***Financial stability is non-existent with 2,842 Cr in debt assigned to an Asset Reconstruction Company (ACRE), and a D/E ratio of -1.37x reflecting a total erosion of the equity base.***	Negative
6	***While the company managed a 98 Cr working capital release, the resulting CFO of 242 Cr is insufficient to cover the 317 Cr interest obligation, signaling a terminal debt spiral.***	Negative
7	***Capital expenditure has effectively ceased, replaced by significant asset write-downs as the company prepares to exit manufacturing to settle systemic debt defaults.***	Negative
8	***Earnings quality is critically low, characterized by massive impairments and the use of non-cash tax reversals to mask the true scale of operational cash burn.***	Negative
9	***Governance risks are acute, highlighted by a qualified audit opinion regarding 2,829.76 Cr of unverified debt and the payment of MD remuneration without mandatory lender approval.***	Negative
10	***Liquidity risk is extreme with Current Liabilities standing at 6.7x Current Assets, leaving the company entirely dependent on a high-stakes liquidation event for survival.***	Negative
11	***The outlook is binary and bleak; failure to execute the AM Green asset sale will likely trigger NCLT-mandated liquidation and a 100% loss of equity value.***	Negative
12	***Investment View: We maintain an Avoid stance due to existential insolvency and governance failures; key monitorables include the closure of the 1,700 Cr slump sale and any trajectory toward a positive Net Worth.***	Negative

Final research summary: nagarjuna fertilizers & chemicals ltd (FY 2023)

1. Business overview

- **Business Segments:** Primary focus on Manufactured Urea (99.74% of revenue) and a secondary Micro-Irrigation (MI) division.
- **Revenue Drivers:** Top-line growth is almost entirely dependent on Government of India (GOI) subsidies (89.25% of total revenue) and gas price pass-throughs.

- **Cost Drivers:** Heavily weighted toward energy (Natural Gas) and finance costs; power and fuel costs nearly doubled to ₹2,403.69 Cr in FY23.
- **Industry Position:** Deteriorated from the largest private sector fertilizer company in South India to a distressed asset seeking survival-driven divestment.
- **Expansion Plans:** Non-existent; the company is currently unable to fund even essential maintenance capex.
- **Acquisitions/Divestments:** Proposed **Slump Sale** of the entire Urea and MI undertakings to AM Green Ammonia (India) Private Limited for ₹1,700 Cr to deleverage the balance sheet.
- **Capacity Additions:** Operations hampered by "single unit operation" from October 2022; manufactured urea volume was 11.205 LMT.
- **Segment Performance:** MI division showed volume recovery (109.59 lakh meters vs. 4.19 lakh meters YoY) but remains a minor contributor.
- **Geographical Presence:** Concentrated in South India; market positioning is currently under severe threat due to "going concern" uncertainty.

2. Management commentary & outlook

- Management narrative is defensive, attributing current financial distress to the 2014 GAIL pipeline accident and subsequent lack of lender support.
- Strategy has shifted from reviving operations to a total exit from manufacturing via a slump sale of core assets.
- Future business plan involves NFCL transitioning into an asset-light distribution and marketing firm for the urea produced by the plants it is selling.
- Management is proposing a One-Time Settlement (OTS) of ₹1,500 Cr with ACRE (the ARC that acquired the debt).
- Growth is entirely contingent on the successful execution of the Debt Resolution and receipt of "energy reimbursements" from the Department of Fertilizers.
- Management acknowledges that without adequate Natural Gas and working capital, they cannot capture the robust demand for Urea.
- The relationship with AM Green Ammonia is the sole lifeline, though NFCL’s long-term upside is capped by a "call option" on the equity it will receive.
- Execution risk is extreme, with the slump sale contingent on ten "Conditions Precedent" and regulatory approvals while under a stayed IBC process.
- **Management Tone:** Survivalist and retrospective. Management is focused on resolving a decade-long debt crisis through liquidation. There is a significant gap between the "formidable player" image projected and the reality of a company selling its core identity to settle with an ARC. The narrative is heavily reliant on the AM Green deal, without which the "going concern" status is highly questionable.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2023	Mar 2022
Sales	5,642	2,692
Sales Growth %	110	71
Expenses	6,238	2,882
Material Cost %	49	49
Raw material cost	2,805	1,305
Change in inventory	-25	1
Manufacturing Cost %	44	48
Employee Cost %	2	4
Other Cost %	16	7
Operating Profit	-595	-190
OPM %	-11	-7
Other Income	63	-78
Exceptional items	0	-109
Other income normal	63	30
Interest	526	370
Depreciation	79	82
Profit before tax	-1,137	-720
Tax %	-21	-4
Net Profit	-900	-689
Exceptional items AT	0	-109
Profit excl Excep	-900	-580
Profit for PE	-900	-580
Profit for EPS	-900	-689
Profit Growth %	-55	-24
EPS (□)	-15.05	-11.52
Dividend Payout %	0	0

Balance sheet (□Cr)

Line item	Mar 2023	Mar 2022
Equity Capital	60	60
Reserves	-2,130	-1,232
Borrowings	2,842	2,561
Long term Borrowings	12.13	21.84
Short term Borrowings	2,829.77	2,538.69
Other Borrowings	0	-0.01
Other Liabilities	1,170	1,369
Non controlling int	0	0
Trade Payables	1,046	988
Other liability items	124	381
Total Liabilities	1,942	2,757
Fixed Assets	1,353	2,106
Land	1,160.28	1,160.28
Building	130.06	130.06
Plant Machinery	1,499.23	1,499.04
Equipments	13.72	13.11
Furniture n fittings	1.08	1.08
Railway sidings	0.47	0.47
Vehicles	0.89	0.89
Intangible Assets	0	0
Other fixed assets	0	-0.01
Gross Block	2,805.73	2,804.92
Accumulated Depreciation	1,453.16	698.73
CWIP	0	0
Investments	0	0
Other Assets	589	651
Inventories	72	46
Trade receivables	397	485
Receivables over 6m	86	117
Receivables under 6m	381	447
Prov for Doubtful	-69	-79
Cash Equivalents	40	44
Loans n Advances	6	8
Other asset items	74	68
Total Assets	1,942	2,757

Cash flow statement (□Cr)

Line item	Mar 2023	Mar 2022
Cash from Operating Activity	242	65
Profit from operations	143	-231
Receivables	85	-304
Inventory	-26	2
Payables	58	552
Loans Advances	0	0
Other WC items	-19	49
Working capital changes	98	298
Direct taxes	1	-3
Cash from Investing Activity	-1	19
Fixed assets purchased	-1	-1
Fixed assets sold	0	0
Investments sold	0	0
Other investing items	0	20
Cash from Financing Activity	-320	-183
Proceeds from borrowings	0	0
Repayment of borrowings	-3	-5
Interest paid fin	-317	-178
Dividends paid	0	0
Other financing items	0	0
Net Cash Flow	-78	-99
Free Cash Flow	241	64
CFO/OP	-40	-36

Key ratios

Line item	Mar 2023	Mar 2022
Debtor Days	26	66
Inventory Days	9	13
Days Payable	137	276
Cash Conversion Cycle	-102	-197
Working Capital Days	-218	-405
ROCE %	-57	-19

3.2 Financial analysis summary

- **Revenue** surged by 110% to ₹5,642.00 Cr, primarily driven by Manufactured Urea; however, Note 20 reveals an extreme sovereign dependency as ₹5,035.73 Cr (89.25%) of this Revenue is derived from GOI subsidies, making Trade Receivables highly sensitive to policy changes.
- Despite the doubling of **Revenue**, the Operating Profit deteriorated to -₹595.00 Cr from -₹190.00 Cr, with OPM % falling to -11.00% as Raw material cost (Natural Gas) spiked by 115.85% to ₹2,782.17 Cr following the restart of the second plant.
- **Other Cost %** ballooned to 16% of Revenue due to a massive non-cash Impairment of PPE amounting to ₹675.19 Cr, reflecting years of neglected maintenance and the economic deterioration of the Kakinada plant.
- The **Balance Sheet** reflects technical insolvency with a negative Net Worth of -₹2,069.77 Cr as accumulated losses in Reserves reached -₹2,130.00 Cr, while Total Debt increased to ₹2,842.00 Cr, almost all of which is Short term Borrowings due to systemic defaults.
- **Finance Cost** rose to ₹526.00 Cr, including ₹176.74 Cr in bank charges/penal interest, which is reflected in the Cash Flow Statement as a ₹317.00 Cr Interest paid fin outflow that significantly exceeds the Profit from operations of ₹143.00 Cr.
- **Fixed Assets** saw a sharp decline to ₹1,353.00 Cr from ₹2,106.00 Cr, primarily due to the ₹675.19 Cr impairment charge, while Accumulated Depreciation jumped to ₹1,453.16 Cr.
- **Working Capital** management shows severe stress as Trade Payables of ₹1,046.00 Cr include ₹73.04 Cr outstanding for >3 years; Note 7.4 highlights that ₹73.08 Cr of Trade Receivables are also overdue for >3 years.
- **Cash from Operating Activity (CFO)** improved to ₹242.00 Cr, but this was largely driven by a ₹98.00 Cr release from Working capital changes and the non-cash nature of the impairment; Free Cash Flow of ₹241.00 Cr was entirely consumed by Interest paid fin.
- **Return metrics** are deeply distressed with ROCE % at -57.00%, and the assignment of the entire Total Debt to an Asset Reconstruction Company (ACRE) on March 31, 2023, poses an existential threat to the Going Concern assumption.
- **Other Current Advances** of ₹60.27 Cr are unsecured and poorly defined, posing a risk of leakage, while Legal & Professional expenses remain high at ₹6.24 Cr due to ongoing IBC cases.
- The dominant financial theme is one of terminal insolvency and operational paralysis, where a 110% surge in subsidy-heavy **Revenue** failed to arrest a deepening Operating Profit loss, leaving the company with a negative Net Worth and defaulted Total Debt.

3.3 Contingent liabilities & commitments

- **Arbitration Matters:** International arbitration awards totaling approx. ₹**139.45 Cr** (USD 15.27M, GBP 0.74M, EUR 0.45M) are outstanding; management claims these were based on tampered documents.
- **Other Claims:** ₹**324.11 Cr** related to water cess and other disputed claims.
- **Tax Matters:** ₹**19.87 Cr** in tax matters currently under appeal.
- **Capital Commitments:** ₹**13.36 Cr** in unexecuted capital contracts.
- **Brand Royalty:** A related party has asserted an unquantified claim for "Nagarjuna Brand" royalty from 1998 to 2021.
- **IBC Petitions:** Three financial creditors and one operational creditor have filed petitions under IBC at NCLT (currently stayed by NCLAT).

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash	—	: Massive non-cash impairment of PPE masks the severity of operational cash burn.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — subsidy dependency	—	: 89.25% of revenue is GOI subsidy; receivables are sovereign-linked.
3	Revenue timing	Revenue ↓ — cleanup of accruals	—	: Suggests a shift to immediate billing or a cleanup of previously accrued income.
4	Revenue from related parties %	Neutral — minimal direct RPT revenue	—	: Revenue concentration is with the Government of India.
5	Inventory vs revenue growth	Profit ↑ — inventory build	—	: Finished goods rose due to the restart of the second urea plant.
6	Inventory valuation method change	Neutral — no change in policy	—	[Accounting Policy]: Consistent application of FIFO/ weighted average.
7	Exceptional items in operating profit	Profit ↓ — non-operating hit	—	: Impairment due to inability to fund maintenance capex.
8	Depreciation rate vs useful life policy	Profit ↑ — lower depreciation	—	: Massive impairment suggests previous carrying values were unsustainable.
9	Provision reversals boosting PAT	Profit ↑ — provision reduction	—	: □73.08 Cr of receivables are >3 years old; provision reduction is aggressive.
10	Tax rate consistency	Profit ↑ — non-cash tax credit	—	: Massive DTL reversal of □235.77 Cr "boosted" PAT by reducing net loss.
11	CWIP age and stalling projects	Neutral — no active expansion	—	: Management admits inability to fund essential maintenance capex.
12	Deferred tax asset recognition adequacy	Profit ↑ — DTL reversal	—	: Reversal is a one-time accounting gain; future benefits unlikely.
13	RPT quantum and trend	Profit ↓ — cash leakage	—	[Note 33.3/4]: MD remuneration paid without lender approval; payables to relatives prioritized.
14	Dividend paid vs FCF adequacy	Neutral — no dividends	—	: Going concern is under material uncertainty.
15	Auditor Confirmation Failure	Neutral — liability uncertainty	—	: Auditor unable to verify accuracy of □2,829.76 Cr borrowings.
16	Impairment Timing	Profit ↑↓ — asset overstatement	—	: Suggests previous years' carrying values may have been overstated to avoid net worth erosion.
17	Preferential RPT Payables	Profit ↓ — cash prioritization	—	: Signals prioritization of promoter-group interests over operational creditors.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion Type:** ***Qualified Opinion*** * **KAM - Revenue Recognition (Subsidy Income):** Auditor flagged the complexity of subsidy income (□5,035.73 Cr), contingent on GOI notifications and DBT quantums. * **KAM - Expected Credit Loss (ECL):** Auditor noted significant judgment in estimating future cash flows for receivables given the financial distress. * **Emphasis of Matter:** Material Uncertainty Related to Going Concern (Negative net worth of □2,069.77 Cr); Debt Assignment to ACRE; Pending

IBC petitions. * **Material Weakness:** Auditor unable to verify borrowings (□2,829.76 Cr) or interest as lenders have not provided balance confirmations for 5 years.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | | :--- | :--- | :--- | :--- | :--- | | K Rahul Raju | KMP (MD) | Remuneration | 1.26 Cr | ***Paid without mandatory lender approval*** | | K Veda Raju | Relative of KMP | Expenses Payable | 9.41 Cr | ***Prioritization of cash to relatives despite vendor defaults*** | | K Lakshmi Raju | Relative of KMP | Rent/Deposits | 1.18 Cr | Potential cash leakage in a distressed entity | | Amlika Mercantile | Promoter | Debt Settlement | 20.00 Cr | Deposit to NCLAT to stay CIRP; creates new liability |

C. Shareholding * **Promoter:** 35.59% (Likely entirely encumbered/pledged via debt assignment to ACRE). * **FII/DII:** 0.09% / 3.33% (Minimal institutional interest). * **Public:** 60.99%.

D. Board Composition + KMP Compensation * **Board:** 6 Directors; 50% Independent; 1 Woman Director. * **MD Compensation:** □1.26 Cr (6.78% YoY growth) despite EBITDA deteriorating to -□595 Cr. * **Governance Failure:** MD remuneration paid without required lender approvals, a critical breach for a company in default.

F. Capital Allocation & Capex | Action | FY current (□Cr) | FY prior (□Cr) | % of CFO | Signal | | :--- | :--- | :--- | :--- | :--- | | Interest Payments | 317.00 Cr | 178.00 Cr | 130.99% | — | | Capex | 1.00 Cr | 1.00 Cr | 0.41% | — | | Net Debt Change | 281.00 Cr | 21.00 Cr | 116.12% | — | | Impairments | 675.19 Cr | 0.00 Cr | 279.00% | — |

CAPEX Analytical Notes: * **CFO Coverage:** Misleadingly high as **Capex** is virtually non-existent (□1 Cr) for a heavy industrial plant. * **Nature of Capex:** Purely minimal maintenance; failure to fund essential maintenance led to the **massive □675.19 Cr impairment.** * **Efficiency:** Non-existent; revenue growth is driven by gas price pass-throughs, not efficiency.

H. Risks * **Going Concern (High):** Negative net worth of **□2,069.77 Cr** and technical insolvency. * **Debt Assignment (High):** Debt assigned to ACRE (ARC) signals shift to aggressive recovery or liquidation. * **IBC/Litigation (High):** Multiple IBC petitions pose an existential threat to corporate existence. * **Asset Impairment (High): □675.19 Cr write-down** due to inability to fund maintenance. * **Subsidy Delay (Medium):** 89.25% revenue concentration makes operations vulnerable to sovereign payment cycles.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	1	→	89% Revenue concentration; manufacturing exit	Commoditized product with total dependency on subsidies and no moat.
Financial health	1	↓	D/E -1.37x; Net Worth -□2,069 Cr	Technically insolvent with negative net worth and systemic debt defaults.
Earnings quality	1	↓	CFO < Interest; □675 Cr impairment	Losses masked by DTL reversals; operational cash flow cannot cover interest.
Management & governance	1	↓	RPTs to relatives; No lender approval for pay	Significant governance red flags regarding RPTs and regulatory non-compliance.
Capital allocation & earnings visibility	1	→	ROCE -57%; Slump sale of core assets	Value-destructive returns with visibility tied solely to a liquidation event.

Business positives (for this company this year) * **Revenue Growth:** Top-line surged **110% to □5,642 Cr**, although this was largely a pass-through of gas prices. * **Working Capital Release: □98 Cr** released from

working capital, helping improve CFO to ₹242 Cr. * **Debt Resolution Roadmap:** Proposed slump sale for **₹1,700 Cr** provides a theoretical path to deleveraging.

Business negatives / concerns (for this company this year) * **Technical Insolvency:** Negative net worth of **-₹2,069.77 Cr** and accumulated losses of ₹2,130 Cr. * **Massive Impairment: ₹675.19 Cr** write-down of the Kakinada plant due to neglected maintenance. * **Debt Assignment:** Entire debt assigned to **ACRE (ARC)**, increasing the risk of aggressive recovery/liquidation. * **Governance Breach:** MD remuneration of **₹1.26 Cr** paid without mandatory lender approval. * **Liquidity Trap: Interest paid (₹317 Cr)** exceeds CFO (₹242 Cr), indicating a debt spiral. * **Auditor Qualification:** Inability to verify **₹2,829.76 Cr** of borrowings due to lack of lender confirmations for 5 years.

OVERALL SCORECARD SUMMARY Nagarjuna Fertilizers is in a state of terminal financial distress, characterized by technical insolvency and a total breakdown of the manufacturing business model. Earnings quality is poor, with massive impairments and non-cash tax reversals masking the true extent of operational cash burn. Governance is a major concern given the unauthorized KMP payments and prioritization of payables to KMP relatives over secured creditors. The company is on a deteriorating trajectory, with its survival entirely dependent on a high-stakes asset liquidation.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Total: 6/10 — Governance Rating: 1

Part c: investor verdict

Thesis: A technically insolvent fertilizer manufacturer attempting a desperate transition to an asset-light distribution model via a total liquidation of its core assets.

Overall stance: Avoid

Rationale: The company faces extreme execution risk, terminal insolvency, and significant governance red flags that threaten equity value. Re-evaluate when: Successful closure of the ₹1,700 Cr slump sale and achievement of a positive Net Worth. BULL CASE: Successful OTS with ACRE and transition to a profitable distribution model (Magnitude: Debt reduction of ₹1,500 Cr+). BEAR CASE: Failure of the AM Green deal leading to NCLT-mandated liquidation (Magnitude: 100% loss of equity value). Key monitorable: Net Worth: Current -₹2,069.77 Cr → Watch for any move toward zero.