National Fertilizer Ltd — FY 2026 Annual Report Analysis

Annual Report Analysis (Consolidated)

Source: CRORES. All figures Crores. Pipeline: v5-Gemini — W1a → W3 → W1b+W2+W2F (parallel, notes-injected) → Merge.

Investor Snapshot

#	Analytical Point	Sentiment
1	**National Fertilizers Limited (NFL) is transitioning its portfolio toward specialty products, with the non-urea segment now contributing 40.34% of total revenue to mitigate urea-policy concentration.**	□Positive
2	The company successfully scaled its Nano-fertilizer vertical, recording sales of 327 lakh bottles, signaling strong farmer adoption of high-tech nutrient delivery systems.	□Positive
3	***Operating margins are structurally constrained at 3.9%, further weighed down by a 35% margin penalty at the Vijaipur-I unit for failing to meet regulatory Target Energy Norms.***	□Negative
4	***Reported profitability is of low quality, as 38% of PAT is derived from non-recurring, non-cash prior-period freight subsidy adjustments rather than core operational efficiency.***	□Negative
5	***The balance sheet has become significantly levered, with Debt/Equity escalating to 1.39x following a 98.3% surge in short-term borrowings to 3,959 Cr to fund working capital.***	□Negative
6	***Cash flow operations (CFO) collapsed to negative 1,342 Cr, driven by a 2,138 Cr spike in uncollected government subsidies, effectively turning the company into an interest-free lender to the sovereign.***	□Negative
7	***Capital allocation is currently value-destructive, with ROCE at 9% sitting below the WACC, and Free Cash Flow (FCF) deep in the red at negative 1,564 Cr.***	□Negative
8	***Earnings quality metrics have deteriorated sharply, highlighted by a CFO/PAT ratio of -6.36x, indicating that reported accounting profits are not translating into liquid cash.***	□Negative
9	***Governance remains a persistent overhang, evidenced by 26.85 Cr in NSE fines for failing to meet independent board composition requirements and identified control lapses in joint ventures.***	□Negative
10	***Solvency risk has intensified due to a new contingent liability of 599.52 Cr related to GST refunds, representing a significant 21% of the company's total Net Worth.***	□Negative
11	The near-term outlook is contingent on a macro-level normalization of the subsidy payout cycle and a favorable resolution of the IDS GST dispute to unlock liquidity.	□Neutral
12	STANCE: WATCH; the risk-reward remains unfavorable until CFO/PAT returns to >1.0x and trade receivables compress from □5,411 Cr to below □3,500 Cr.	□Neutral

1. BUSINESS OVERVIEW (In Bullet Points)

- **Business Segments:** National Fertilizers Limited (NFL), a Navratna PSU, has diversified from a urea-centric manufacturer into a multi-vertical agri-input player. The business operates across **Manufactured Urea**, **Traded Fertilizers (DAP/MoP/NPK)**, and **Industrial Products/Agro-chemicals**.
- **Revenue Drivers:** A critical structural shift is underway; while Manufactured Urea is the volume backbone, "Other Products" (Trading and Industrial) now contribute 40.34% of revenue, up from 5.5% in FY16. Growth is increasingly driven by the **Traded segment** and **Specialty products** like Urea Gold and Nano-fertilizers.

- **Cost Drivers:** The primary cost driver is **Natural Gas (RLNG/NG)**, used as both raw material (₹6,414.00 Cr) and fuel (₹4,350.06 Cr), accounting for nearly 50% of total revenue.
- **Industry Position:** NFL maintains a dominant position in the Indo-Gangetic plain, leveraging a massive distribution network of **18,000 Pradhan Mantri Kisan Samriddhi Kendras (PMKSKs)**.
- **Expansion Plans:** Focus is on **"Specialty and Nano"** products, including scaling a 5,000 MTPA **Urea Gold** pilot plant to 250-300 MTPD units to address soil sulfur deficiency.
- **Acquisitions & Joint Ventures:** Equity participation in **RFCL (Ramagundam)** and the newly incorporated **AVFCCL (Assam Valley)** signals a move toward distributed manufacturing.
- **Capacity & Operational Constraints:** Older units (Nangal, Bathinda, Panipat) consume higher energy than modern plants, making them vulnerable to tightening **Target Energy Norms (TEN)**.
- **Geographical Presence:** Strong regional concentration in Northern India with strategic expansions into the Southern (RFCL) and North-Eastern (AVFCCL) regions through JVs.

2. MANAGEMENT COMMENTARY & OUTLOOK

- Management's core narrative centers on **"Atmanirbhar Bharat"**, ensuring food security through bridging the domestic supply-demand gap via aggressive imports of DAP/MoP and ramping up indigenous production.
- A major strategic emphasis is placed on **technological modernization**, specifically the migration from legacy systems to a comprehensive **SAP ERP platform** to enhance operational transparency.
- Management acknowledges significant operational headwinds regarding **Target Energy Norms (TEN)**, particularly at the **Vijaipur-I unit**, which faces a 35% margin penalty for failing to meet energy efficiency standards.
- The demand environment is described as **resilient**, supported by favorable monsoons; management is pursuing a proactive import strategy to build inventory ahead of peak seasons to insulate from geopolitical shocks.
- Guidance focuses on **Industrial Diversification** into Ammonium Nitrate and Nitric Acid to improve non-subsidy margins and the commercialization of **Urea Gold** as a primary bottom-line driver.
- Management portrays the acceptance of **Nano-fertilizers** as a success, with over 327 lakh bottles sold, indicating a shift in farmer psychology toward more efficient nutrient delivery.
- There is visible lobbying effort with **NITI Aayog** and the **Department of Fertilizers** to re-base energy norms for older plants to mitigate recurring margin penalties.
- **Management Tone:** The tone is **defensive yet resilient**. Management is candid about the technical limitations of older plants and the resulting energy penalties, characterizing them as a "risk to operational viability." However, the tone shifts to **promotional** when discussing digital transformation and new product launches. There is a noticeable **bureaucratic detachment** regarding governance lapses, specifically the repeated NSE/BSE fines for improper Board composition, which are dismissed as being beyond the company's control due to government appointment timelines.

3. FINANCIAL ANALYSIS

3.1 Financial Statements

Source: Screener.in — all monetary values in Crores. Use these numbers directly.

Basis: CONSOLIDATED.

P&L Statement (₹Crores)

Line Item	Mar 2026	Mar 2025
Sales -	21,514.00	19,798.00
Sales Growth %	8.67	-15.95
Expenses -	20,681.00	19,182.00
Material Cost % -	64.00	61.00
Raw material cost	13,831.00	11,253.00
Change in inventory	-27.00	863.00
Manufacturing Cost %	22.00	26.00
Employee Cost %	3.00	3.00
Other Cost %	7.00	6.00
Operating Profit	834.00	615.00
OPM %	3.90	3.10
Other Income -	96.00	203.00
Exceptional items	0.00	15.00
Other income normal	96.00	187.00
Interest	249.00	233.00
Depreciation	405.00	373.00
Profit before tax	275.00	212.00
Tax %	23.00	13.00
Net Profit -	211.00	184.00
Exceptional items AT	0.00	13.00
Profit excl Excep	211.00	171.00
Profit for PE	211.00	171.00
Profit for EPS	211.00	184.00
Profit Growth %	24.00	20.00
EPS in Rs	4.31	3.75
Dividend Payout %	0.00	42.00

Balance Sheet (₹Crores)

Line Item	Mar 2026	Mar 2025
Equity Capital	491.00	491.00
Reserves	2,350.00	2,225.00
Borrowings -	3,964.00	2,001.00
Long term Borrowings	0.00	0.00
Short term Borrowings	3,959.00	1,996.00
Lease Liabilities	4.00	5.00
Other Borrowings	0.00	0.00
Other Liabilities -	4,920.00	4,599.00
Trade Payables	1,479.00	1,537.00
Advance from Customers	0.00	52.00
Other liability items	3,441.00	3,009.00
Total Liabilities	11,724.00	9,316.00
Fixed Assets -	3,534.00	3,694.00
Land	0.00	18.54
Building	0.00	217.44
Plant Machinery	0.00	6,382.18
Equipments	0.00	15.86
Computers	0.00	74.63
Furniture n fittings	0.00	36.15
Railway sidings	0.00	9.53
Vehicles	0.00	16.07
Intangible Assets	39.61	44.15
Other fixed assets	0.00	80.58
Gross Block	0.00	6,895.13
Accumulated Depreciation	0.00	3,201.31
CWIP	161.00	172.00
Investments	496.00	443.00
Other Assets -	7,534.00	5,007.00
Inventories	1,085.00	915.00
Trade receivables	5,411.00	3,273.00
Cash Equivalents	59.00	33.00
Loans n Advances	55.00	198.00
Other asset items	924.00	587.00
Total Assets	11,724.00	9,316.00

Cash Flow Statement (□Crores)

Line Item	Mar 2026	Mar 2025
Cash from Operating Activity -	-1,342.00	2,590.00
Profit from operations	734.00	614.00
Receivables	-2,325.00	848.00
Inventory	-175.00	834.00
Payables	466.00	229.00
Other WC items	0.00	0.00
Working capital changes	-2,034.00	1,911.00
Direct taxes	-42.00	65.00
Cash from Investing Activity -	-263.00	-268.00
Fixed assets purchased	-228.00	-204.00
Fixed assets sold	5.00	32.00
Investments purchased	0.00	0.00
Investments sold	0.00	0.00
Interest received	11.00	12.00
Investment in group cos	-52.00	-108.00
Redemp n Canc of Shares	0.00	0.00
Cash from Financing Activity -	1,643.00	-2,334.00
Proceeds from borrowings	1,963.00	0.00
Repayment of borrowings	0.00	-2,093.00
Interest paid fin	-242.00	-226.00
Dividends paid	-77.00	-13.00
Financial liabilities	-2.00	-2.00
Net Cash Flow	37.00	-12.00
Free Cash Flow	-1,564.00	2,418.00
CFO/OP	-156.00	410.00

Key Ratios (□Crores)

Line Item	Mar 2026	Mar 2025
Debtor Days	92.00	60.00
Inventory Days	29.00	28.00
Days Payable	39.00	46.00
Cash Conversion Cycle	81.00	42.00
Working Capital Days	0.00	0.00
ROCE %	9.00	8.00

3.2 Financial Analysis Summary

- **Revenue** grew 8.67% to **₹21,514.18 Cr**, but quality is constrained by a 70% dependency on Government of India (GoI) subsidies (**₹15,036.16 Cr**), which directly caused **Trade Receivables** to surge 65.3% to **₹5,411.24 Cr** as subsidy realizations hit a bottleneck.
- **Operating Profit** margins improved to 3.90% from 3.10%, but the cost structure remains volatile as Natural Gas accounts for 49.8% of total **Revenue**, making bottom-line stability dependent on "Gas Pool Account" policies.
- A severe deterioration in earnings quality is evident as **CFO** swung from a positive **₹2,590.00 Cr** to a negative **₹1,342.00 Cr**, primarily because **Working Capital** changes absorbed **₹2,034.00 Cr** due to the spike in subsidy receivables recognized upon sale to dealers but not yet eligible for cash receipt.
- To bridge this liquidity gap, the company nearly doubled its **Short term Borrowings** to **₹3,959.25 Cr**, resulting in an 89.64% increase in the **Debt/Equity** ratio to **1.39** and causing **Finance Cost** to rise 10.43% to **₹249.33 Cr**.
- **Net Profit** of **₹211.49 Cr** includes "catch-up" income such as **₹81.80 Cr** in additional freight subsidy for past periods; nearly 38% of current-year **PAT** is derived from non-recurring prior-period adjustments.
- The **Balance Sheet** faces significant solvency risk from a new **Contingent Liability** of **₹599.52 Cr** related to a GST Inverted Duty Refund dispute, representing 21% of the **Net Worth** (**₹2,840.98 Cr**).
- Capital allocation efficiency is weakening, evidenced by a 10-year incremental ROIC of only 3.18%, while **FCF** reached a window-low of **₹-1,564.00 Cr**.
- **Other Current Assets** are bloated by **₹784.95 Cr** in stuck GST Input Credit, which is 3.7x the annual **PAT**, further aggravating the cash-trap scenario where the **Cash Conversion Cycle** nearly doubled to 81 days.
- **Other Expenses** are impacted by **Security Expenses** of **₹76.94 Cr**, which are 3.5x higher than repairs and maintenance, suggesting high structural costs associated with PSU plant security.
- **Other Liabilities** include a large "dumping bucket" of **₹1,318.31 Cr** in "Other Financial Liabilities," described vaguely as including "Liability for Imports," which lacks granular transparency.
- The dominant financial theme of the year is a **liquidity-driven leverage spike**, where modest operational gains were entirely negated by a massive working capital trap in government subsidies, forcing the company to fund interest-free receivables with expensive short-term debt.

3.3 Contingent Liabilities & Commitments

- **GST Inverted Duty Refund Dispute:** ₹599.52 Cr (New material dispute; potential to wipe out 3 years of PAT).
- **Income Tax Demands:** ₹157.61 Cr (Pending litigation).
- **Pollution Board Demand (Carbon Slurry):** ₹47.72 Cr (Demand from NGT for disposal violations).
- **Capital Commitments:** ₹290.46 Cr (Net of advances; for ongoing projects/maintenance).
- **Total Contingent Liabilities:** ₹923.64 Cr (Exceeds 32% of Net Worth).

3.9 Earnings Quality & Forensic Checks

Read	Question	Verdict	Confidence	Checked
1	Is the growth real?	***FLAG***	high	6/6
2	Does profit become cash?	***FLAG***	high	5/5
3	Is the P&L being manufactured?	***WATCH***	high	6/6
4	Is value leaving to insiders?	***WATCH***	high	6/6
5	Can the balance sheet take a hit?	***FLAG***	high	5/5

Read 1 — Is the growth real? → FLAG

Signal	Prior	This year	Δ	Status	Quantified impact	Evidence
Trade receivables growth vs Revenue growth	Rs 3,273.00 Cr	Rs 5,411.00 Cr	65.3% increase in receivables vs 8.7% revenue growth	□FLAG	Rs 2,138.00 Cr increase in uncollected revenue (9.9% of Revenue)	Note 12, p.342
Subsidy Receivable (Current)	Rs 3,001.52 Cr	Rs 5,198.89 Cr	73.2% increase	□FLAG	Rs 2,197.37 Cr cash blockage in government dues	Note 12, p.342
Unbilled Subsidy (POS Pending)	Rs 2,124.72 Cr	Rs 1,921.51 Cr	9.6% decrease	□ CLEAN	n/a	Note Subsidy Receivable, p.342
Undisputed Credit Impaired Receivables	Rs 47.35 Cr	Rs 50.19 Cr	6% increase	□ WATCH	Rs 2.84 Cr additional impairment provision	Note 12 Ageing, p.342
Revenue from Related Parties (RFCL Marketing)	not disclosed	Rs 45.05 Cr	new disclosure	□ WATCH	0.2% of Total Revenue	Note 52, p.370
Advances from Customers	Rs 52.00 Cr	Rs 0.00 Cr	100% decrease	□ WATCH	Rs 52.00 Cr reduction in interest-free float	Note Balance Sheet, p.303

> **Mechanism:** Revenue growth is being recognized on an accrual basis for subsidies that are not being collected, leading to a massive spike in receivables that far outpaces sales growth. **Aggregate impact:** Receivables represent 25.1% of FY2026 revenue, up from 16.5% in FY2025, creating a liquidity crunch. **Direction:** deteriorating · **Watch next:** Trade Receivables as a % of Revenue · **Corroborates:** profit_to_cash

Read 2 — Does profit become cash? → FLAG

Signal	Prior	This year	Δ	Status	Quantified impact	Evidence
CFO vs clean EBITDA	410.00%	-156.00%	Negative swing of 566 percentage points	□FLAG	Operating cash flow turned from Rs 2,590.00 Cr to negative Rs 1,342.00 Cr	Note Cash Flow Statement, p.323
Pre-tax operating conversion ((CFO+tax)/ EBITDA)	Rs 2,655.00 Cr / Rs 614.00 Cr = 432.4%	Rs -1,300.00 Cr / Rs 734.00 Cr = -177.1%	Severe deterioration in cash conversion efficiency	□FLAG	n/a	Note Cash Flow Statement, p.323
Working Capital Movement (Receivables Drag)	Rs 848.00 Cr (inflow)	Rs -2,325.00 Cr (outflow)	Rs 3,173.00 Cr negative swing in receivables cash impact	□FLAG	Receivables alone consumed 3x the annual Operating Profit	Note Cash Flow Statement, p.323
Inventory absorption of cash	Rs 834.00 Cr (release)	Rs -175.00 Cr (absorption)	Rs 1,009.00 Cr negative swing	□ WATCH	Inventory build consumed Rs 175.00 Cr of cash	Note Cash Flow Statement, p.323
Cash tax paid vs Book tax	Rs 65.00 Cr (refund) vs Rs 27.82 Cr (exp)	Rs 42.00 Cr (paid) vs Rs 63.02 Cr (exp)	Normalization of tax outflow	□ CLEAN	Cash tax is lower than book tax by Rs 21.02 Cr	Note Cash Flow Statement, p.323

Mechanism: The company's positive operating profit of Rs 734.00 Cr is entirely non-cash, as it was overwhelmed by a Rs 2,325.00 Cr surge in receivables and Rs 175.00 Cr in inventory, leading to negative CFO. **Aggregate impact:** Negative Free Cash Flow of Rs 1,564.00 Cr required Rs 1,963.00 Cr in new short-term borrowings to sustain operations. **Direction:** deteriorating · **Watch next:** Change in Trade Receivables in the Cash Flow Statement · **Corroborates:** bs_stress, revenue_real

Read 3 — Is the P&L being manufactured? → WATCH

Signal	Prior	This year	Δ	Status	Quantified impact	Evidence
Past Period Subsidy Adjustments in Revenue	Rs 83.74 Cr	Rs 186.95 Cr	123% increase	☐ WATCH	Adds Rs 186.95 Cr of non-recurring income to PBT (68% of PBT)	Note 35, p.355
Other Income as % of PBT	95.7%	34.9%	Significant reduction in reliance on non-operating income	☐ CLEAN	n/a	Note P&L Statement, p.303
Amortisation of Govt Grant offsetting Depreciation	Rs 192.56 Cr	Rs 203.76 Cr	5.8% increase	☐ CLEAN	Neutralizes 50.2% of the annual depreciation charge	Note 44, p.358
Deferred Tax Asset movement	Rs -19.30 Cr	Rs 13.27 Cr	Positive swing (credit to P&L)	☐ WATCH	Increases PAT by Rs 13.27 Cr (6.3% of PAT)	Note P&L Statement, p.322
Capitalized Exchange Differences (Unamortized)	not disclosed	Rs 45.01 Cr	Accumulated balance in PPE	☐ WATCH	Defers Rs 45.01 Cr of currency losses from the P&L	Note 2(c), p.335
Useful life / Depreciation policy changes	none	none	—	☐ CLEAN	n/a	Note 1.2.10, p.328

Mechanism: Reported PBT is heavily supported by 'catch-up' income from past period subsidy adjustments (Rs 186.95 Cr), which accounts for the majority of the pre-tax profit. **Aggregate impact:** Excluding past period adjustments, PBT would drop from Rs 275.00 Cr to Rs 88.05 Cr. **Direction:** stable · **Watch next:** Past period subsidy adjustments as a % of PBT

Read 4 — Is value leaving to insiders? → WATCH

Signal	Prior	This year	Δ	Status	Quantified impact	Evidence
Related Party Purchases (RFCL)	not disclosed	Rs 486.31 Cr	Significant volume with JV	☐ WATCH	2.2% of Total Expenses	Note 52, p.370
JV accounting adjustment (Assam Valley)	none	Rs 5.30 Cr (loss recognized)	Correction of aggressive capitalization in JV	☐ WATCH	Auditor reversed NFL's share of Rs 26.18 Cr 'stone laying' expenses capitalized by JV	Note 61(b), p.377
KMP Remuneration vs PAT	not disclosed	Rs 3.35 Cr	n/a	☐ CLEAN	1.6% of PAT	Note 52, p.370
Loans/Advances to Group Entities	Rs 108.00 Cr	Rs 52.00 Cr	51.8% decrease	☐ CLEAN	n/a	Note Cash Flow Statement, p.323
Promoter (GoI) Pledge	none	none	—	☐ CLEAN	n/a	Note Performance Highlights, p.39
Unspent CSR Liability	Rs 1.58 Cr	Rs 0.68 Cr	57% utilization of prior unspent amount	☐ CLEAN	n/a	Note Cash Flow Statement, p.323

Mechanism: Value leakage is not evident in direct KMP pay, but the aggressive capitalization of ceremonial expenses at the Assam Valley JV (Rs 26.18 Cr) required a consolidated-level auditor correction, indicating weak controls at the JV level. **Aggregate impact:** n/a **Direction:** stable · **Watch next:** Net balances receivable from RFCL and Assam Valley JVs

Read 5 — Can the balance sheet take a hit? → FLAG

Signal	Prior	This year	Δ	Status	Quantified impact	Evidence
Contingent Liabilities vs Net Worth	Rs 243.76 Cr	Rs 923.64 Cr	278% increase in disclosed contingencies	□FLAG	Contingent liabilities now represent 32.5% of Net Worth (Rs 2,840.98 Cr)	Note 48, p.364
GST Inverted Duty Refund Dispute	not disclosed	Rs 599.52 Cr	New material dispute	□FLAG	Potential liability is 2.8x the annual PAT	Note 48, p.364
Short Term Borrowings (Liquidity Stress)	Rs 1,996.00 Cr	Rs 3,959.00 Cr	98.3% increase	□FLAG	Debt-to-Equity ratio surged from 0.72 to 1.39	Note 27, p.350
Dividend vs Free Cash Flow	Rs 13.25 Cr	Rs 76.53 Cr	Dividend paid despite deeply negative FCF	□FLAG	Dividends are effectively debt-funded in FY2026	Note Cash Flow Statement, p.323
CWIP Ageing / Stalled Projects	Rs 172.00 Cr	Rs 161.00 Cr	6.4% decrease	□ CLEAN	n/a	Note Balance Sheet, p.303

Mechanism: The balance sheet is under extreme stress due to the combination of a debt-funded working capital cycle and a massive new contingent liability (Rs 599.52 Cr) that could impair solvency. **Aggregate impact:** Short-term borrowings of Rs 3,959.00 Cr and contingent liabilities of Rs 923.64 Cr together represent 171% of Net Worth. **Direction:** deteriorating · **Watch next:** Legal outcome of the GST Inverted Duty Refund Dispute · **Corroborates:** profit_to_cash

Material notes captured

Note	Discloses	Prior	This year	Impact	Signal
61 (p.377)	**The company migrated from Oracle to SAP on 01.01.2025.**	Oracle	SAP	Significant operational risk during data cleansing and re-mapping.	neutral
27 Security (p.350)	***Secured loans are backed by a first charge on entire current assets (stocks, receivables, and spares).***	not disclosed	Rs 2,759.25 Cr	Limits headroom for further emergency funding if subsidy delays continue.	negative
17 (p.345)	***GST Input Credit of Rs 784.95 Cr is stuck due to inverted duty structure.***	not disclosed	Rs 784.95 Cr	Represents 3.7x the annual PAT in blocked liquidity.	negative
61(b) (p.377)	***JV (Assam Valley) capitalized "stone laying ceremony" expenses of 26.18 Cr.***	none	□5.30 Cr (loss)	Revenue ↓ — Auditor-forced reversal of aggressive JV capitalization.	Profit ↓

4. MANAGEMENT & GOVERNANCE

A. Auditor Report & Key Audit Matters * **Audit Opinion: Unmodified / Unqualified.** * **KAM - Subsidy Recognition & Valuation:** Auditor focused on the complexity of estimating income (□15,036.16 Cr) from multiple GoI schemes (NUP, NBS, DBT). Key risk involves estimating "unacknowledged POS quantity" and timing gaps between dealer sales and farmer POS eligibility. * **KAM - System Transition Risk:** Migration from Oracle to

SAP on 01.01.2025. Auditor reviewed data cleansing and re-mapping, noting significant operational risk for data integrity. * **KAM - Investment in JVs:** Focus on impairment testing of □495.56 Cr investment in JVs, specifically accumulated losses in RFCL and the dormant status of Urvarak Videsh Limited. * **Emphasis of Matter/Lapses:** * ***Board Composition:*** Non-compliant with the 50% Independent Director requirement; missed having an Independent Woman Director until 22.05.2025. * ***Committee Lapses:*** Audit, NRC, and RMC committees were improperly constituted during FY26. * ***Stock Exchange Fines:*** NSE and BSE levied fines totaling □26.85 Cr for non-compliance with Board composition regulations.

B. Related Party Transactions

Party	Relationship	Nature	Amount (Cr)	Concern
RFCL	Joint Venture	Purchase of Goods	486.31 Cr	***High Reliance***
RFCL	Joint Venture	Marketing/Service Charges	45.05 Cr	Operational Synergy
RFCL	Joint Venture	Net Balance Payable	30.65 Cr	**Improving**
Assam Valley Fertilizer	Joint Venture	Equity Investment	10.27 Cr	New Venture

- **RPT Risk Checks:** RPTs account for 2.47% of revenue. However, the auditor reversed □5.30 Cr (NFL's share) of aggressive capitalization in the Assam Valley JV related to stone-laying ceremony expenses.
- **RPT Verdict: Monitor** □due to circular marketing fees vs. product purchases and weak capitalization controls at the JV level.

C. Shareholding * **Promoter (Govt. of India):** 74.71% * **FIIs:** 6.23% * **DIIs:** 9.31% (calc.) * **Public:** 9.75% (calc.) * **Pledged Shares:** 0.00%

D. Board Composition + KMP Compensation * **Total Directors:** 8 | **Independent %:** 37.50% (Non-compliant with 50% requirement). * **KMP Compensation:** Aggregate pay of □2.88 Cr (reported individuals) is 0.35% of EBITDA. No KMPs share the same family name. * **Leadership Risks:** Frequent use of "Additional Charge" for technical and finance roles signals continuity risks.

F. Capital Allocation & Capex

Action	FY 2026 (Cr)	FY 2025 (Cr)	% of CFO	Signal
Dividends	77.00 Cr	13.00 Cr	-5.73%	□
Capex	228.00 Cr	204.00 Cr	-16.98%	**Defensive**
Net Debt Change	1,963.00 Cr	(2,093.00) Cr	-146.27%	□
Interest Payments	242.00 Cr	226.00 Cr	-18.03%	□

- **CAPEX Analytical Notes:**
  - **CFO Coverage of Capex:** Ratio is **-5.88x**, indicating Capex is entirely debt-funded.
  - **Nature of Capex:** Primarily maintenance and regulatory; commissioned a 5,000 MTPA Urea Gold plant at Nangal.
  - **Deployment Efficiency:** Revenue grew 8.6% despite a 98% spike in debt-funded working capital; **Capex is not driving top-line growth** but merely sustaining old plants.

H. Risks * ***GST IDS Dispute (Litigation):*** Potential **□599.52 Cr hit**; would wipe out 3 years of PAT. * ***Energy Penalty (Regulatory):*** **35% penalty on urea margins** at Vijaipur-I due to failing efficiency norms. * ***Subsidy Delay (Liquidity):*** **96% of receivables** are from GoI; spiked short-term debt by 98% to □3,959 Cr. * ***Carbon Slurry Penalty (Operational):*** □47.72 Cr potential outflow for NGT disposal violations.

5. SCORECARD & VERDICT

Part A: Scorecard

Dimension	Rating (1–5)	Delta	Key Evidence	One-line Rationale
Business Quality	3	→	70% Subsidy dependence; OPM 3.9%	Stable demand but low pricing power and regulatory energy penalties.
Financial Health	2	↓	D/E 1.39x; CFO □-1,342 Cr	Negative CFO and surging short-term debt to fund government receivables.
Earnings Quality	2	↓	CFO/PAT -6.36x; PAT 38% non-recurring	Non-cash profits dominated by subsidy accruals and prior-period adjustments.
Management & Governance	2	↓	NSE Fines □26.85 Cr; Board non-compliance	Persistent failure to meet independent board requirements and JV control lapses.
Capital Allocation & Earnings Visibility	2	↓	ROCE 9% < WACC; FCF □-1,564 Cr	Value-destructive cycle of borrowing to fund interest-free government dues.

BUSINESS POSITIVES (for this company this year) * □**Revenue Diversification:** Non-urea segment now contributes 40.34% of revenue, reducing urea-policy concentration risk. * □**New Product Traction:** Sold over 327 lakh bottles of Nano-fertilizers, indicating successful farmer adoption of new technologies. * □**Improved Inventory Management:** Finished goods inventory reduced by 39.7%, suggesting better dispatch efficiency. * □**Strategic Capacity Addition:** Commissioned the Urea Gold plant at Nangal to target high-margin specialty segments.

BUSINESS NEGATIVES / CONCERNS (for this company this year) * □**Severe Liquidity Stress:** CFO turned negative □1,342 Cr due to a □2,138 Cr spike in uncollected government subsidies. * □**Solvency Risk:** New contingent liability of □599.52 Cr for GST refunds represents 21% of Net Worth. * □**Leverage Surge:** Short-term borrowings increased by 98.3% to □3,959 Cr, worsening the Debt/Equity to 1.39x. * □**Regulatory Penalty:** Vijaipur-I unit faces a 35% margin penalty for failing to meet Target Energy Norms. * □**Quality of Earnings:** 38% of PAT is derived from non-recurring prior-period freight subsidy adjustments.

OVERALL SCORECARD SUMMARY NFL's financial profile has deteriorated significantly this year, characterized by a transition to a high-leverage model to sustain chronic delays in government subsidy payments. While operational margins showed slight improvement, the earnings are of poor quality as they are entirely non-cash and heavily dependent on prior-period adjustments. Governance remains a persistent concern with ongoing regulatory non-compliance on board composition and weak controls at the JV level. The business is on a deteriorating trajectory as the balance sheet is being used as an interest-free lender to the sovereign, destroying equity value.

Part B: Governance Check Matrix

#	Check	Status	Evidence
1	Audit opinion clean?	□	Unmodified opinion issued (p.61).
2	Promoter pledge = 0?	□	0.00% pledged shares (p.151).
3	KMP pay < 5% of PAT?	□	Aggregate KMP pay is 1.6% of PAT.
4	RPT quantum < 5% of revenue?	□	Total RPTs are 2.47% of revenue.
5	Board > 50% independent?	□	Only 37.50% independent; NSE fines levied.
6	At least 1 woman director?	□	Ms. Pinky Pradhan appointed May 2025.
7	No statutory dues outstanding?	□	□599.52 Cr GST dispute and □157 Cr IT demand.
8	No fraud reported?	□	No fraud noted in Auditor's report.
9	Audit trail enabled?	□	Confirmed in Auditor's report.
10	Frequent Auditor change	□	PSU auditor appointed by C&AG; no frequent change.
Final line: "Total: 7/10 □— Governance Rating: 2"			

Part C: Investor Verdict

THESIS: A quasi-sovereign fertilizer manufacturer facing a severe liquidity trap and regulatory margin penalties despite a strategic shift toward specialty products.

OVERALL STANCE: WATCH

RATIONALE: While the business is critical to food security, the current debt-funded working capital cycle and massive GST litigation risk make the risk-reward unfavorable until subsidy payouts normalize. RE-EVALUATE WHEN: CFO/PAT returns to >1.0x AND the GST IDS dispute is resolved in favor of the company. BULL CASE: Successful lobbying for energy norm relaxation at Vijaipur-I could boost EBITDA by 15-20% and a special subsidy payout from GoI could wipe out current debt. BEAR CASE: A negative ruling in the □599.52 Cr GST case would likely necessitate a capital raise or further debt that impairs solvency. KEY MONITORABLE: Trade Receivables: □5,411 Cr → Watch for reduction below □3,500 Cr.

7. YEAR-OVER-YEAR ANALYSIS

7.1 Changes

Metric / Theme	Summary A Status	Summary B Status	Forensic Takeaway
Debt Profile	Significant deleveraging to ₹2,001 Cr; 51% reduction in total debt.	Sharp re-leveraging to ₹3,964 Cr; nearly 100% spike in short-term borrowing.	The company has entirely reversed its prior year's debt reduction progress to bridge a massive liquidity gap.
Working Capital & Cash Flow	Record positive CFO (₹2,590 Cr) driven by aggressive inventory liquidation.	Negative CFO (₹-1,342 Cr) caused by a ₹2,138 Cr surge in uncollected subsidies.	The cash flow profile has swung from a liquidation-driven surplus to a severe, receivable-led cash burn.
Contingent Liabilities	Relatively stable at ₹243.76 Cr.	Massive escalation to ₹923.64 Cr, primarily due to a new ₹599.52 Cr GST dispute.	Off-balance sheet risks have spiked to a critical level, now threatening over 30% of the company's total net worth.
Earnings Quality	Impacted by inventory valuation changes and JV restatements.	Deteriorated further with 38% of PAT derived from non-recurring "catch-up" adjustments.	Reported profits are increasingly artificial, relying on prior-period accounting reconciliations rather than current-period operational efficiency.
Management Tone	Expansionary and optimistic following "Navratna" status and diversification.	Defensive and detached, specifically regarding NSE/BSE governance fines and energy penalties.	Management has shifted from a growth-oriented narrative to a defensive posture focused on regulatory lobbying and risk mitigation.
Capital Allocation	Debt repayment prioritized; dividends funded by surplus operations.	Capex and dividends are now effectively debt-funded due to negative FCF.	The company has entered a value-destructive cycle of borrowing at interest to fund interest-free government receivables.

7.2 Persistent Patterns

- **Subsidy Dependency: Over 70% of revenue remains tied to government subsidies, making the entire business model a function of federal fiscal policy and payment timelines.**
- **Energy Norm Penalties: The Vijaipur-I unit continues to incur a 35% margin penalty for failing efficiency targets, acting as a permanent structural drag on operating margins.**
- **Short-term Debt Concentration: Management maintains a near-100% preference for short-term borrowings, leaving the balance sheet perpetually vulnerable to interest rate volatility and refinancing risk.**
- **Joint Venture (JV) Control Lapses: Both periods reveal internal control weaknesses in JVs, ranging from prior-period accounting errors to aggressive capitalization of ceremonial expenses.**
- **Defensive Capex: Capital expenditure remains strictly limited to maintenance and regulatory compliance, with no evidence of transformative capacity expansion that could improve ROIC.**
- **Accrued but Unbilled Revenue: The practice of recognizing subsidy income before it is legally "due" under the DBT scheme remains a consistent source of earnings quality risk.**
- **Board Non-Compliance: The company consistently fails to meet independent board requirements, suggesting that regulatory fines are viewed as a "cost of doing business" rather than a governance priority.**

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