

WEDNESDAY, SEPTEMBER 11, 1996

Undeserved treatment

The foremost requirement now is to install a full time chief executive for NFL, says Uttam Gupta

EVEN as all eyes are set on the unravelling mystery of the National Fertiliser Limited's (NFL) dubious urea import deal with the little known Turkish company i e Karsan, there is need to pay urgent attention to its impending adverse impact on the financial health of the NFL and take all possible measures to prevent it. Unfortunately, so overwhelming has been the involvement of the powers that be with the investigations that the authorities have hardly any time to even think over this most vital issue.

With a huge chunk of funds i e Rs 133 crore locked up in the urea import transaction, the NFL is seriously short of liquidity. Reportedly, it defaulted in its payment obligations to IOC, the main supplier of fuel oil/LSHS which lost no time in suspending further supplies resulting in stoppage of production at NFL's Panipat and Nangal plants.

Incidentally, these plants had suffered heavily during 1995-96 on account of short supply of coal needed for running their captive power units due to overall short supply of wagons on the one hand, and the low priority assigned by the railways for movement to fertiliser plants on the other.

Reportedly, even the Gas Authority of India Limited (GAIL) was contemplating suspension of supply of natural gas to NFL's plant at Vijaipur in MP in view of the latter's inability to clear the outstanding dues. The Vijaipur plant needs about 1.5 million cubic metre of gas per day for its feedstock requirements alone to run it at optimum load. Denial of gas supplies would result in production loss of about 2400 tonne urea per day and corresponding financial loss of about Rs 50 lakh a day due to standing charges alone.

Presently, NFL has a number of projects under implementation. These include expansion at Vijaipur involving doubling of the existing urea production capacity of 7.26 lakh tonne per annum and revamp/modernisation of the plant at Nangal. The expansion project at Vijaipur originally slated for commissioning in January, 1997, has already received a serious jolt following IDBI's reported decision not to release the sanctioned loan of over Rs 400 crore.

The revelations in the case made so far clearly point towards the possibility of the entire amount of

Rs 133 crore being lost. This will cut deep into the profitability of the company and its internal resources, thus further hampering the capability to complete the projects under implementation. The NFL had more plans for growth and modernisation, including the contemplated expansion project at Panipat. With the impending resource squeeze, these are unlikely to be taken up now.

At present, the NFL is without a full time chief executive. Its affairs are being managed by the CMD, HFC, a government of India undertaking in the fertiliser sector which is

companies which the government selected for disinvestment of its equity and mobilised significant sums for reducing its overall budget deficit.

Recently, as part of its overall exercise to prune the budget deficit, the United Front government even made payment of a minimum of 20 per cent of the post-tax profits of the profit making PSUs mandatory. Clearly, NFL would have been one of the target undertakings for this purpose.

Against this backdrop, it is really painful that this cash rich undertaking is being pushed into a situation of ultimate sickness. The irony is that



presently with the Board of Industrial and Financial Reconstruction (BIFR). In view of this big void, the NFL is bound to suffer irreparable damage for want of timely and effective decisions.

Reportedly, because of the blocking of huge funds in the import deal with Karsan, the NFL was unable to open LC in respect of the confirmed supplies from other exporters. These suppliers are now contemplating filing law suits in the court.

NFL is one of the few PSUs which has had a consistently good track record, maintaining reasonably high levels of profitability and giving large revenues to the government by ways of dividend and various taxes and duties. It is one of those blue chip

more than the direct loss in the urea import transaction, the post scam developments are causing far more damage to its continued health and growth.

In this context, it may not be out of place to mention that FCI and HFC group of companies became sick because of the continued neglect for years and have been languishing with the BIFR during the last three years for want of funds needed for their rehabilitation. Let us not allow the history to repeat itself as the damage will be irreparable and the cost of undoing it will be monumental.

Adverse effect on the health of NFL will have serious repercussions on the national fertiliser scene. With urea production of 2.3 million tonne

(1995-96), NFL has a share of about 15 per cent in the all India production of about 15.8 million tonne. The country cannot afford to lose this production, specially when we are heavily dependent on imports for meeting the consumption requirements. In fact, during 1995-96, India imported about 3.7 million tonne, and any slip on the domestic front will lead to further increase in imports.

The loss of production will lead to avoidable outgo of foreign exchange of about \$500 million at current C&F landed cost. This can be seriously destabilising from the BoP angle. The pressure on the Indian rupee during the second half of 1995-96 was compounded, to a great extent, by the high import of urea. Further increase in fertiliser import can trigger off another round of rupee depreciation which will be harmful to the entire economy.

The increase in imports will add to the strains on the limited infrastructure at the Indian ports. During 1995-96, congestion at the ports led to delays in berthing and handling of the ships and resultant loss by way of demurrage and short availability of raw materials and intermediates affecting domestic production. These problems will get compounded if India is forced to increase urea imports to make up for the shortfall in domestic production.

From the subsidy angle also, the economy will be at a serious loss. The weighted average farmgate cost of supplying NFL urea from its plants (Bhatinda, Panipat, Nangal, Vijaipur) is about Rs 5500 per tonne as against the corresponding cost of imported urea of about Rs 9000 per tonne. In view of this, the replacement of NFL urea by imports will lead to an increase in the subsidy burden by about Rs 3500 per tonne. On a total production of about 2.3 million tonne, the extra subsidy outgo will be about Rs 800 crore.

The foremost requirement now is to install a full time chief executive, preferably a high profile professional drawn from a successful company, either in the public sector or private. The CE should not only be capable of maintaining the internal working of the enterprise in the normal gear, but also, maintain good external relations with the main supplier of raw material, feedstock/fuel, the FIs and commercial banks.