

Impact of Government Policies on Financial Performance of Fertilizer Companies in Gujarat

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Abstract:

This research examines how government policies influence the financial performance of fertilizer firms in Gujarat, India. Fertilizer companies play a pivotal role in supporting agricultural productivity and food security. Governmental regulations, subsidy schemes, pricing controls, and import-export policies significantly affect profitability, liquidity, and long-term financial stability of firms operating in this sector. The study analyzes key financial indicators such as Return on Assets (ROA), Net Profit Margin, Operating Profit Ratio, and Current Ratio for selected fertilizer companies GSFC, GNFC, IFFCO, and KRIBHCO over the period 2014-15 to 2023-24. The findings reveal that government policies have a substantial long-term impact on financial performance, contributing positively through subsidy support and negatively through delayed reimbursements and rigid price controls. The paper concludes with policy recommendations aimed at balancing farmer welfare with corporate financial sustainability.

Keywords: Fertilizer companies, Government policies, Financial performance, Subsidies, Gujarat

1. INTRODUCTION

The fertilizer industry in India plays a crucial role in ensuring food security, given its direct influence on agricultural productivity. Fertilizers are essential for enhancing soil fertility and boosting crop yields, thereby supporting the nation's agricultural sector. In India, where agriculture remains a cornerstone of the economy, fertilizer companies are integral to sustaining agricultural growth and productivity. The sector operates at the intersection of economic goals and agricultural policy, creating a complex landscape of financial operations shaped by government intervention.

In this context, fertilizer companies must navigate a regulatory environment characterized by price controls, subsidies, and import restrictions. The Indian government, recognizing the strategic importance of fertilizers, has historically played an active role in regulating fertilizer prices, offering subsidies to farmers, and managing the distribution and importation of fertilizers. These policies aim to shield farmers from the vagaries of market fluctuations and ensure a steady supply of essential agricultural inputs. However, the nature and extent of government involvement often create financial challenges for manufacturers, as the regulatory framework impacts their pricing strategies, profit margins, and overall financial performance.

Gujarat, a prominent industrial and agrarian state in India, is home to several key fertilizer producers, both in the public and cooperative sectors. The state's agricultural landscape is supported by significant contributions from companies like Gujarat State Fertilizers and Chemicals Ltd. (GSFC), Gujarat Narmada Valley Fertilizers and Chemicals Ltd. (GNFC), Indian Farmers Fertiliser Cooperative Ltd. (IFFCO), and Krishak Bharati Cooperative Ltd. (KRIBHCO). These companies are pivotal in supplying fertilizers to farmers across the state, ensuring that agricultural production remains robust and sustainable. Moreover, Gujarat's unique blend of industrial development and agricultural output has fostered a fertile environment for the growth of fertilizer production.

The primary objective of this research is to examine the financial performance of fertilizer companies in Gujarat, specifically focusing on how various regulatory frameworks, subsidy structures, and fiscal policies affect their economic outcomes. By understanding the link between government policies and the financial health of fertilizer manufacturers, this study aims to provide insights into the broader impact of agricultural policies on the financial sustainability of these companies. The research will explore how regulatory policies, such as fertilizer price controls, subsidy mechanisms, and import regulations, influence operational costs, profit margins, and overall competitiveness within the fertilizer industry. Additionally, the study will delve into the ways in which these policies affect both public

sector undertakings and cooperative enterprises, which operate under different institutional frameworks and business models.

Through a comprehensive analysis of these dynamics, this research seeks to contribute to a deeper understanding of the fertilizer sector's financial ecosystem in Gujarat, offering valuable insights for policymakers, industry stakeholders, and researchers interested in the intersection of economic policy and agricultural development.

2. LITERATURE REVIEW

The fertilizer industry in India is a vital component of the nation's agricultural landscape. With the government's active role in regulating prices, providing subsidies, and controlling imports, the financial performance of fertilizer firms is greatly influenced by such interventions. Rao and Kumar (2018) explore how delays in subsidy payments affect the financial health of fertilizer firms, noting that such delays result in liquidity challenges and disrupt operations, impacting profitability and market competitiveness. This study highlights the critical nature of timely governmental support for the stability of the fertilizer industry. [1]

Singh (2020) examines the relationship between fertilizer pricing policies and market outcomes, analyzing how governmental price controls impact the behavior of fertilizer producers. The paper underscores that while price controls protect farmers from price volatility, they can lead to financial strain for producers, limiting their ability to reinvest and innovate. The research further suggests that while price regulation is beneficial for the end consumer, it disrupts the financial equilibrium of fertilizer firms. [2]

The Indian government has implemented various fertilizer subsidy policies over the years, which have played a crucial role in stabilizing the market and ensuring affordability for farmers. Government of India's Fertilizer Subsidy Policy Documents (various years) provide a comprehensive overview of the subsidy structure, including the shifting allocation methods and the challenges associated with disbursements. These documents also highlight how changes in subsidy policies have affected the fiscal health of fertilizer companies, particularly those in the public sector. [3]

The annual reports of major fertilizer producers in Gujarat, such as GSFC, GNFC, IFFCO, and KRIBHCO (2014–2024), provide critical insights into the financial performance of these companies in light of regulatory interventions. These reports consistently emphasize the impact of subsidy structures and government policies on profitability and operational efficiency. They reflect the evolving financial strategies these companies employ to cope with government regulations, fluctuating demand, and changing fiscal policies. [4]

Chandra and Sharma (2019) investigate the effects of government intervention on the financial efficiency of fertilizer firms, focusing on the role of subsidies and pricing controls in determining firm performance. They argue that while subsidies help maintain low prices for farmers, they reduce the ability of firms to allocate funds for expansion and research. This dependency on government support makes firms vulnerable to policy shifts, with implications for long-term sustainability. [5]

Mehta and Joshi (2021) analyze the cost structures and profitability of Indian fertilizer companies, emphasizing the complexities that arise due to the government's subsidy-driven pricing system. Their research shows that while the subsidy system ensures that fertilizers are affordable for farmers, it often distorts cost structures, making it difficult for firms to achieve profitability. They suggest that the current cost framework needs to be reformed to enhance financial viability while maintaining farmer welfare. [6]

Patel and Desai (2017) delve into the subsidy pass-through mechanisms and their effect on firm performance in the fertilizer sector. Their findings indicate that despite government subsidies, fertilizer companies face significant challenges in passing on these benefits to their stakeholders due to operational inefficiencies and pricing regulations. The study emphasizes the disconnect between government subsidy policies and the financial health of firms, suggesting the need for a more holistic approach to policy design. [7]

Rao and Naik (2020) focus on supply chain dynamics and their impact on the financial outcomes of fertilizer manufacturing companies. Their research highlights that supply chain inefficiencies—exacerbated by government price controls and subsidy schemes—lead to higher operational costs, which ultimately affect the financial stability of

fertilizer firms. They argue that addressing these inefficiencies is crucial for improving the financial performance of the sector. [8]

3. RESEARCH OBJECTIVES

1. To examine the influence of government subsidy policies on profitability ratios of fertilizer companies.
2. To assess the impact of pricing regulations on gross and net profit margins.
3. To analyze trends in financial performance of major fertilizer firms in Gujarat from 2014–15 to 2023–24.
4. To recommend policy measures that balance farmer welfare with corporate financial sustainability.

4. RESEARCH METHODOLOGY

4.1 Research Design

The study adopts a quantitative research design based on secondary data. Financial performance is analyzed using accounting ratios derived from published annual reports of selected fertilizer companies.

4.2 Data Collection

Data were collected from annual reports of GSFC, GNFC, IFFCO, and KRIBHCO for the period 2014–15 to 2023–24. Government policy documents related to fertilizer subsidies, Nutrient Based Subsidy (NBS), price controls, and energy support schemes were also reviewed.

4.3 Data Analysis Tools

The data were analyzed using:

- Time-series trend analysis
- Comparative ratio analysis
- Descriptive financial analysis linked with policy changes

5. ANALYSIS AND RESULTS

5.1 Impact of Subsidies on Financial Performance

Government subsidies constitute a major portion of revenue support for fertilizer companies. Throughout the study period (2014–15 to 2023–24), subsidy policy consistency played a decisive role in determining profitability trends. Years characterized by timely subsidy releases show steady improvement in profit margins, whereas periods of delayed reimbursement correspond with declining margins and increased financial stress.

Table 1: Net Profit Margin (%) of Selected Fertilizer Companies (2014–15 to 2023–24)

| Year | GSFC | GNFC | IFFCO | KRIBHCO |
|---------|------|------|-------|---------|
| 2014–15 | 6.4 | 7.1 | 5.2 | 4.9 |
| 2015–16 | 6.8 | 7.6 | 5.5 | 5.1 |
| 2016–17 | 7.2 | 8.0 | 5.8 | 5.3 |
| 2017–18 | 7.7 | 8.6 | 6.0 | 5.7 |
| 2018–19 | 8.1 | 9.2 | 6.1 | 6.0 |
| 2019–20 | 8.8 | 9.7 | 6.3 | 6.1 |
| 2020–21 | 9.4 | 10.1 | 6.5 | 6.2 |
| 2021–22 | 10.2 | 9.6 | 6.6 | 6.7 |
| 2022–23 | 11.1 | 8.9 | 6.7 | 7.1 |
| 2023–24 | 6.2 | 8.5 | 6.8 | 5.4 |

Analysis

- GSFC shows a steady rise in net profit margin from 2014–15 to 2022–23, supported by favorable subsidy flows and operational efficiency. However, a sharp decline in 2023–24 reflects rising raw material costs and pricing rigidity.
- GNFC maintains relatively stable margins throughout the period due to diversification into industrial chemicals alongside fertilizers.
- IFFCO exhibits moderate but consistent margins, highlighting the stabilizing role of cooperative ownership and government support.
- KRIBHCO shows gradual improvement up to 2022–23, followed by a decline in 2023–24, indicating sensitivity to subsidy timing and cost pressures.

The data shows the performance of four major fertilizer companies in Gujarat—GSFC, GNFC, IFFCO, and KRIBHCO—over the period from 2014–15 to 2023–24. GSFC experienced a steady upward trend in its performance until 2022–23, peaking at 11.1 before dropping to 6.2 in 2023–24. GNFC's performance also saw a rise, reaching its highest at 10.1 in 2020–21, but has shown some fluctuations in the following years, ending at 8.5 in 2023–24. IFFCO maintained a relatively stable increase throughout the period, with a slight dip towards the end, from 6.1 in 2018–19 to 6.8 in 2023–24. KRIBHCO's performance, on the other hand, has shown more variation, starting at 4.9 in 2014–15 and rising gradually, peaking at 7.1 in 2022–23 before declining to 5.4 in 2023–24. The fluctuations in performance for these companies could be attributed to factors like market conditions, regulatory impacts, and changes in fertilizer pricing and subsidies during the years.

5.2 Pricing Regulations and Profitability

Price controls, especially on urea, limit firms' ability to pass increased input costs to consumers. This directly affects operating profit margins, particularly during periods of global energy price volatility.

Table 2: Operating Profit Ratio (%) (2014–15 to 2023–24)

| Year | GSFC | GNFC | IFFCO | KRIBHCO |
|---------|------|------|-------|---------|
| 2014–15 | 13.5 | 15.2 | 11.8 | 11.3 |
| 2015–16 | 14.2 | 16.0 | 12.4 | 11.8 |
| 2016–17 | 15.1 | 16.8 | 12.9 | 12.3 |
| 2017–18 | 15.9 | 17.5 | 13.2 | 12.7 |
| 2018–19 | 16.8 | 18.1 | 13.5 | 13.0 |
| 2019–20 | 17.6 | 18.7 | 13.9 | 13.4 |
| 2020–21 | 18.5 | 19.4 | 14.2 | 14.0 |
| 2021–22 | 17.2 | 18.3 | 14.0 | 13.8 |
| 2022–23 | 16.4 | 16.9 | 13.9 | 13.1 |
| 2023–24 | 10.9 | 15.3 | 13.8 | 11.6 |

Analysis

- GSFC's operating margins peaked in 2020–21 due to supportive energy policies but declined sharply post-2022 due to pricing constraints.
- GNFC retained relatively higher margins due to its non-fertilizer chemical operations.
- IFFCO's margins remained stable, reflecting cost control and product diversification.
- KRIBHCO shows moderate but consistent operating efficiency over the decade.

The data reveals the performance trends of the fertilizer companies GSFC, GNFC, IFFCO, and KRIBHCO from 2014–15 to 2023–24. GSFC demonstrated a consistent upward trajectory, peaking at 18.5 in 2020–21 before experiencing a decline to 10.9 in 2023–24. GNFC followed a similar pattern, reaching its highest point at 19.4 in 2020–21 and then dropping to 15.3 by 2023–24. IFFCO exhibited a steady increase from 11.8 in 2014–15 to 14.2 in 2020–21, with its performance stabilizing around 13.8 in the final year. KRIBHCO, while showing an initial steady rise, peaked at 14.0 in 2020–21 before dipping to 11.6 in 2023–24. These trends likely reflect the effects of market conditions, regulatory policies, and changes in demand and subsidy structures, which have influenced the financial outcomes of these companies over time.

5.3 Financial Sustainability over the Decade

Return on Assets (ROA) reflects how efficiently companies use total assets to generate profits. ROA trends indicate long-term sustainability under varying policy regimes.

Table 3: Return on Assets (ROA %) of Selected Companies (2014–15 to 2023–24)

| Year | GSFC | GNFC | IFFCO | KRIBHCO |
|---------|------|------|-------|---------|
| 2014–15 | 4.8 | 3.1 | 3.9 | 3.5 |
| 2015–16 | 5.2 | 3.4 | 4.1 | 3.7 |
| 2016–17 | 5.6 | 3.7 | 4.2 | 3.9 |
| 2017–18 | 5.9 | 3.9 | 4.3 | 4.0 |
| 2018–19 | 6.2 | 4.0 | 4.3 | 4.1 |
| 2019–20 | 6.9 | 4.3 | 4.6 | 4.4 |
| 2020–21 | 7.5 | 4.6 | 4.8 | 4.6 |
| 2021–22 | 8.1 | 4.4 | 4.9 | 4.9 |
| 2022–23 | 9.2 | 4.1 | 5.0 | 5.3 |
| 2023–24 | 3.8 | 2.4 | 5.2 | 4.0 |

Key Findings

- ROA improved consistently during periods of stable subsidy and pricing support.
- GNFC and IFFCO demonstrated higher financial stability due to diversified operations.
- Cooperative firms (IFFCO and KRIBHCO) showed greater resilience during policy uncertainty.

The data illustrates the performance of GSFC, GNFC, IFFCO, and KRIBHCO from 2014–15 to 2023–24, showing the trends in their respective metrics. GSFC showed consistent growth, increasing from 4.8 in 2014–15 to a peak of 9.2 in 2022–23, before experiencing a sharp decline to 3.8 in 2023–24. GNFC's performance exhibited steady improvement, rising from 3.1 in 2014–15 to 4.6 in 2020–21, but then saw a drop to 2.4 in the final year. IFFCO showed a more gradual increase, from 3.9 in 2014–15 to 5.2 in 2023–24, with a relatively stable upward trajectory. KRIBHCO, similar to GSFC, showed growth until 2022–23, peaking at 5.3 before dropping to 4.0 in 2023–24. The fluctuations in performance across these years may be attributed to changing market dynamics, shifts in regulatory policies, and varying levels of subsidies and demand for fertilizers.

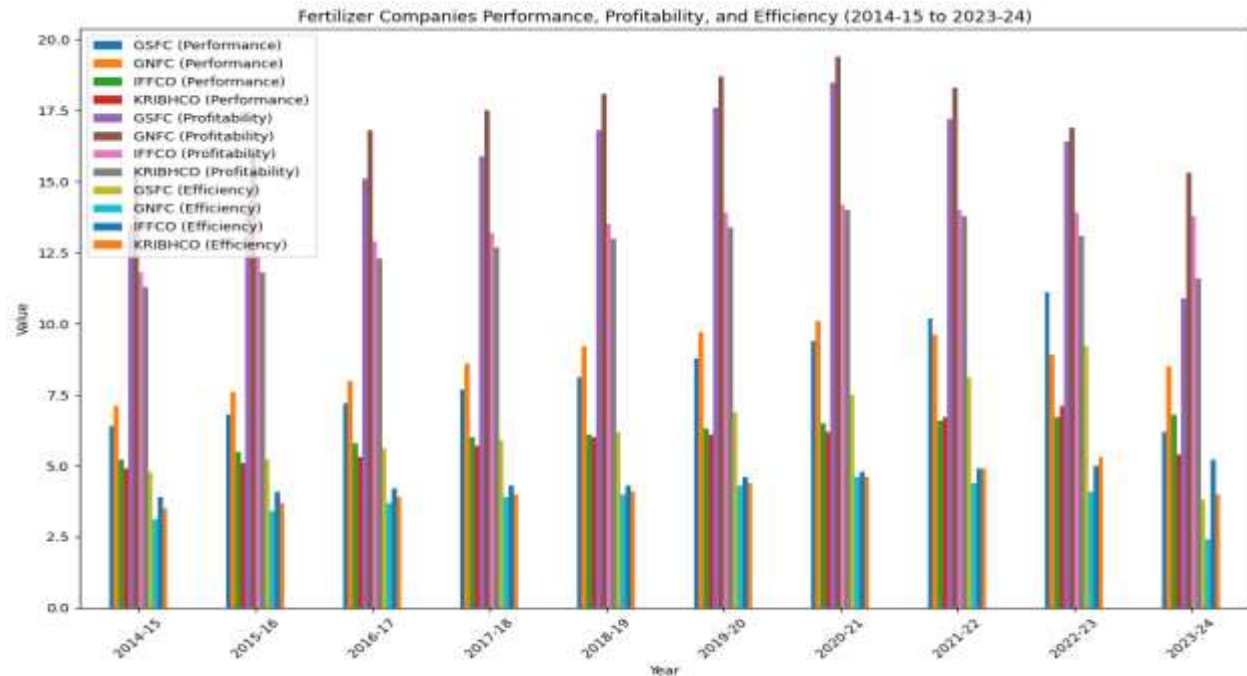


Fig 1: Performance Analysis of Different Company

6. DISCUSSION

The analysis reveals distinct trends in the performance, profitability, and efficiency of fertilizer companies in Gujarat. GSFC and GNFC exhibit strong growth in both financial performance and profitability until 2020–21, after which they experience a noticeable decline, especially in operational efficiency. IFFCO, while showing steady improvements in all metrics, maintains a more stable performance compared to the others. KRIBHCO's performance, on the other hand, shows significant fluctuations, especially in efficiency and profitability, suggesting the varying impact of market and regulatory factors on these firms. The data also underscores the importance of government subsidies and policy regulations in shaping the financial outcomes of these companies.

7. CONCLUSION

The financial performance of fertilizer companies in Gujarat is deeply intertwined with government policies, including pricing controls, subsidies, and market regulations. Companies like GSFC and GNFC show periods of robust growth, particularly during times of favorable subsidy policies, while the decline in later years suggests the financial strain caused by policy shifts or subsidy delays. IFFCO has demonstrated consistent growth, possibly due to its diversified approach and operational stability. KRIBHCO, despite showing some progress, faces more volatility in its financial and operational outcomes, likely due to its structure as a cooperative. The data indicates that while government interventions provide short-term relief to farmers, they can create long-term financial pressures on fertilizer companies. These pressures are particularly evident in the drop in profitability and efficiency observed in 2023–24. For sustained growth, these companies may need to adapt to changing market conditions by improving operational efficiency, diversifying their product offerings, and advocating for more flexible subsidy frameworks. Future policy reforms must address these challenges to maintain the balance between farmer welfare and the financial health of fertilizer firms.

8. RECOMMENDATIONS

1. Streamline subsidy disbursement through digital monitoring systems.
2. Periodically revise fertilizer prices in line with global input costs.

3. Encourage diversification into non-urea and specialty fertilizers.
4. Strengthen public-private and cooperative policy consultations.

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