

Fertilizer Industry 9M-FY19 update

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Domestic Fertilizer Production and Imports during 9M-FY19

Table 1: Production and Import of key fertilizers (LMT*)

	9M-FY18	9M-FY19	Change (%)
Overall Fertilizer Production	312	307	-1.4%
Overall Fertilizer Imports	140	147	5.5%
Urea Production	178	178	-0.1%
Urea Imports	50	53	7.2%
Non- Urea Production**	135	131	-2.9%
DAP Production	37	26	-29.8%
DAP Imports	38	56	46.6%
SSP Production	30	32	5.2%
MOP Imports	35	31	-10.5%

Source: Department of Fertilizers, CMIE, Office of the Economic Adviser (figures do not add up due to different sources)

Note: LMT*- Lakh Metric Tonnes, Non-Urea** Fertilizers include NPK fertilizers, Ammonium nitrate, ammonium sulphate, DAP and SSP

The overall production of fertilizers has decreased by 1.4% during 9M-FY19. Fertilizer production has decreased on account of increase in key raw material prices which has impacted the production of fertilizers on an overall basis. Destocking of channel inventory during Q3-FY19 has also led to the fall in production on a cumulative basis.

Domestic production of **urea** (which constitutes about 57%-60% of the overall fertilizer production) has been stable and decreased marginally by 0.1%, whereas imports have increased by 7.2%

Import dependence of urea (imports as a proportion of production plus imports) has increased during 9M-FY19 (from 22% in 9M-FY18 to 23% in 9M-FY19). Presently India mainly imports Urea from Oman, Iran and China.

Diammonium Phosphate (DAP) production has fallen by 29.8% on account of higher raw material prices (phosphoric acid) and also as the industry maximized the availability of phosphoric acid usage by shifting its production from DAP to NPK fertilizers, while DAP demand was being catered mainly through imports. Phosphoric acid prices have increased by 31% during 9M-FY19 period.

Imports on the other hand have risen sharply by 46.6% to make up for the domestic shortfall and also because it was more conducive to import the finished product rather than to manufacture it. India mainly imports DAP from China, Saudi Arabia, USA and Jordan.

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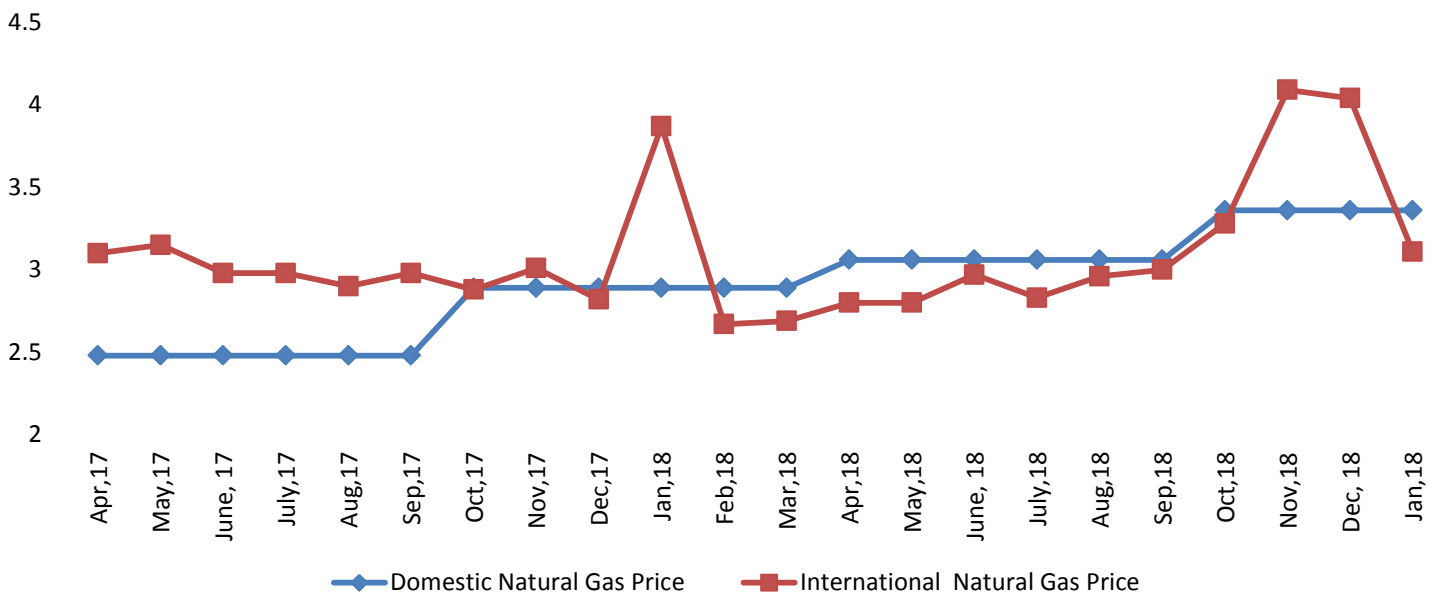
India meets its **Potassium chloride (commonly referred to as Muriate of Potash or MOP)** requirements completely through imports from Canada, Russia, CIS+ Belarus, Israel, Jordan and Lithuania. MOP imports have decreased by 10.5%

Single superphosphate (SSP) production has increased by 5.2% due to the increase in demand for phosphatic grade fertilizers. SSP is indigenously produced and procured. Farmers are opting more for the lower 'P' grade product than the higher 'P' grade product like DAP.

Trend in prices of key input raw materials

Natural gas is used as feedstock for the manufacturing of urea and accounts for 80% of the raw material cost for urea manufacturing. The fertilizer industry is the leading consumer of domestic natural gas. Additional requirement of natural gas is plugged in via imports of natural gas in the form of RLNG. Out of 31 urea plants in India, 28 are gas based.

Chart 1: Trend in Domestic and International Natural Gas Prices (USD/MMBTU)



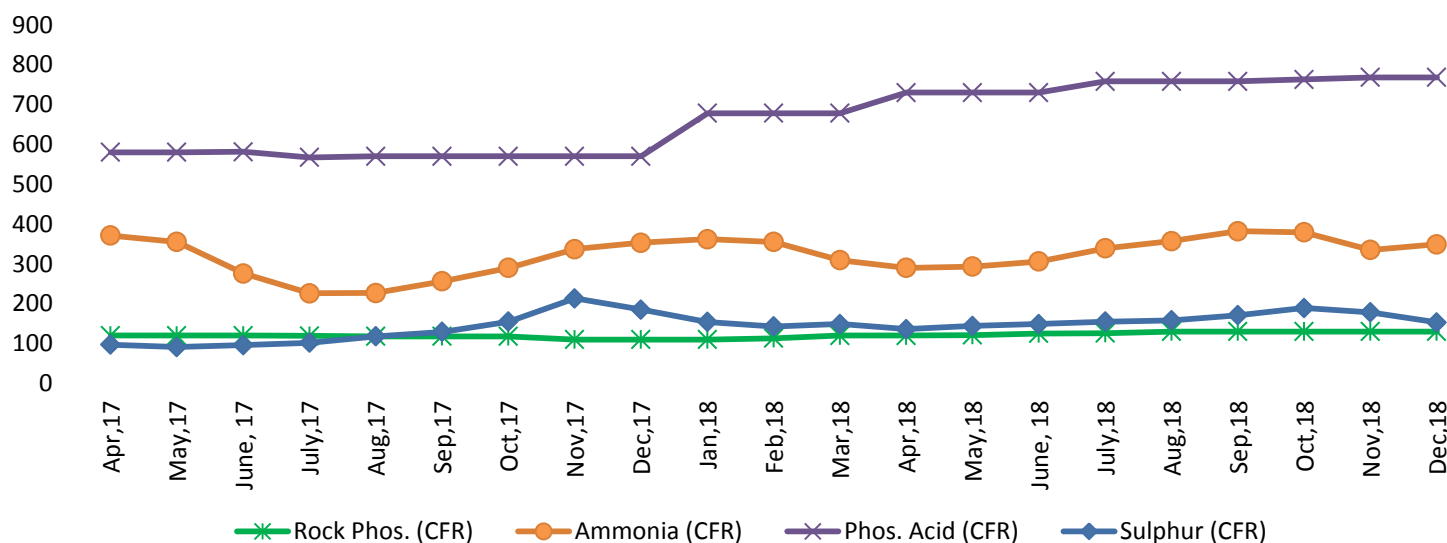
Source: PPAC, EIA

As per the New Domestic Gas Policy, price of domestic natural gas is revised every 6 months and currently (H2-FY19) the price of domestic natural gas is USD 3.36/mmBtu which is 9.8% higher as compared with the price prevailing during H1-FY19. Prices of natural gas had risen on account of a sharp increase of crude oil prices. Prices of R-LNG are usually governed by market dynamics based on the global crude oil prices.

India imports the raw materials needed for manufacturing of fertilizers. Raw material prices remained firm during the quarter, as plant closures in China and higher global demand impacted the availability. Prices of phosphoric acid, rock phosphates, ammonia and sulphur have increased by 31%, 8%, 13% and 21% respectively.

Note: We have compared the y-o-y average prices prevailing during 9M-FY19 vis-à-vis with the prices prevailing during 9M-FY18.

Chart 2: Prices of Raw Materials used for Fertilizer Production (USD/MT)



Source: Department of Fertilizers

Policy Update

Fertilizer subsidy for FY20: As per the FY20 (I) budget, the fertilizer industry has received INR 0.7 lakh crore as subsidies where INR 0.5lakh crore is earmarked as the urea subsidy and the remaining INR 0.2 lakh crore is to be given as the nutrient based subsidy (NBS). The government has increased the overall fertilizer subsidy by 7%.

Within the subsidy, the allocation towards the urea subsidy has increased by 11.5% and allocation towards the NBS has decreased by 1%. The increase in the urea subsidy is expected to provide support to the government's direct benefit transfer (DBT) scheme and augurs well for the industry as the Ramagundam urea plant will start production in the first quarter of FY20, which will lead to an increase in urea availability.

The per kg subsidy rates of the nutrients under the NBS will be decided by March. These rates are determined taking into account the international and domestic prices of P&K fertilizers, exchange rate and the inventory level in the country.

Challenges

The fertilizer sector could face issues regarding the liquidity of working capital and credit accumulation.

- The fertilizer sector still faces an inward duty structure with the raw materials being taxed at 18% (except phosphoric acid which is now taxed at 5%) and the final product being charged at 5%. Ammonia and sulphuric acid are still being taxed at 18% which could lead to a temporary liquidity crunch and an increase in credit accumulation. The increase in raw material prices, higher inventory levels to meet the seasonal demand and migration to the DBT regime has also had an impact on the working capital.

CARE Ratings Outlook

The Government of India is focused towards the development of the agricultural sector and on improving the rural economy. The focus on doubling farmer income by 2022, significant public spending for improving rural infrastructure (particularly irrigation projects), greater crop insurance coverage, and increase in agricultural credit is expected to boost crop yields and thus lead to an increase in use of fertilizers.

- Going forward we expect the overall fertilizer production to be around 422-425 LMT by the end of FY19. Till now (9M-FY19) overall fertilizer production has been 307 LMT.
- Increase in the disposable income of farmers with the PM-KISAN scheme is to lead in the rise in sales of fertilizers especially of decontrolled fertilizers. PM-KISAN is estimated to benefit 12 crore farmer families.

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