

# Fertilizers: Subsidy Budget May Fall Short by ₹35k cr on High Input Costs

October 07, 2022 | Ratings

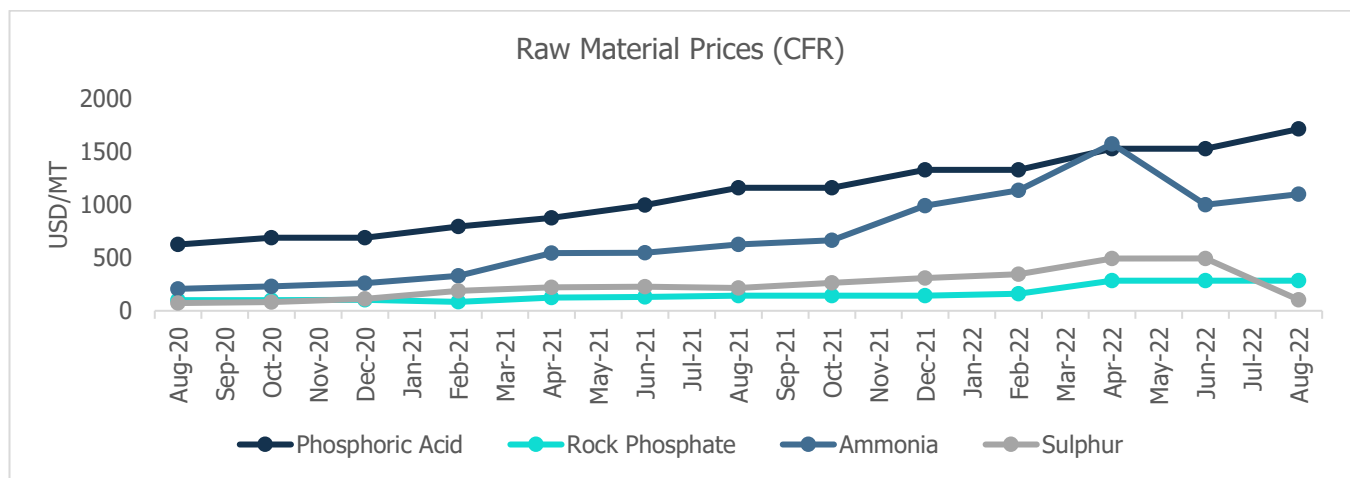
## Synopsis

In this report, CareEdge has analysed the impact of elevated raw material and gas prices along-with rupee's depreciation on the subsidy budget for the fertilizer sector.

- CareEdge believes the already enhanced fertilizer subsidy budget of ~₹2,15,000 crore for FY23 is likely to fall short by around ₹35,000 crore.
- Prices of a majority of the key raw materials for the production of fertilizers remain elevated in H1FY23 on the back of the Russia-Ukraine war.
- Prices of domestic natural gas allocated to the fertilizer sector remained high in H1FY23 and the same further increased by nearly 40% w.e.f. October 01, 2022, for H2FY23.
- There has nearly been a 7% depreciation of the Indian rupee vis-à-vis the US dollar in H1FY23, which increases the subsidy requirement since a majority of key raw materials for fertilizers are imported.

## Increasing Raw Material Prices

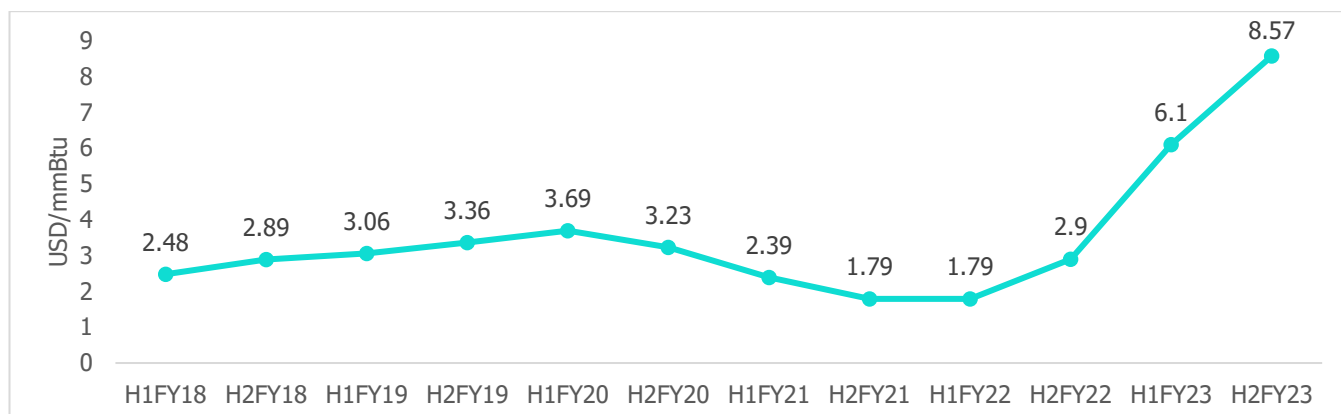
Apart from natural gas, most key raw materials for the production of fertilizers include Ammonia, Phosphoric Acid, Rock Phosphate and Sulphur. In this, other than Sulphur, the prices of all key raw materials were elevated in H1FY23 on the back of the Russia-Ukraine war.



Source: Dept. of Fertilizers; CFR: Cost and Freight

## Domestic Natural Gas Prices Rise

After experiencing low natural gas prices for FY21 & FY22, prices of domestic natural gas surged significantly in H1FY23. The prices of domestic natural gas were further increased by nearly 40% w.e.f. October 01, 2022 for H2FY23. Also, prices of imported natural gas in the spot market stood much higher than domestic natural gas. Very high natural gas prices are likely to result in higher subsidy requirement for FY23.

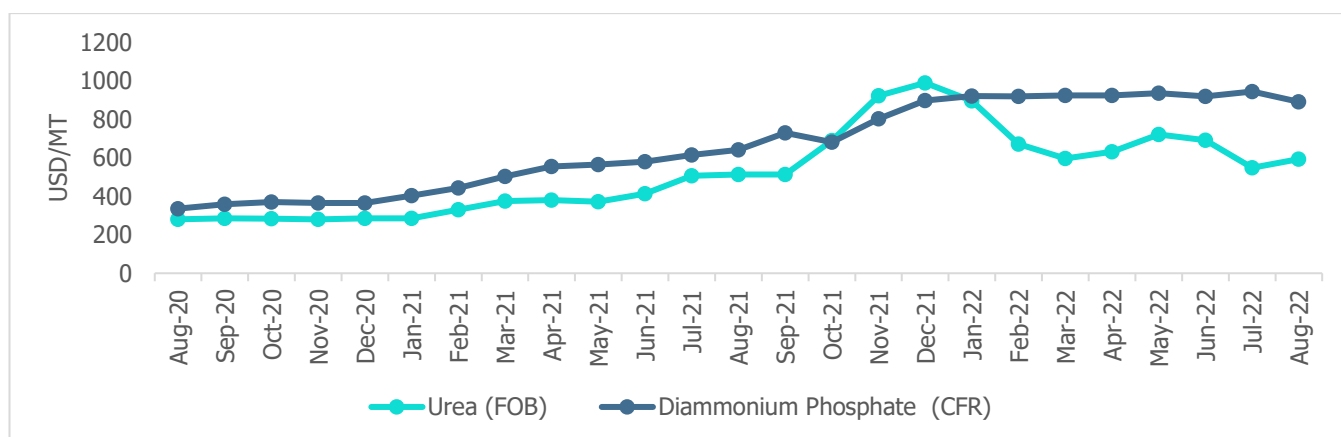


Source: Petroleum Planning and Analysis Cell; mmBtu: metric million British thermal units

### Trend of Urea and Di-ammonium Phosphate Prices

Out of India’s total consumption of fertilizers, urea constitutes 55% to 60% wherein Ammonia is the key raw material. Further, as retail prices of urea are capped by the Government of India, there is a large subsidy pay-out with respect to the consumption of urea in India. Accordingly, urea subsidy comprises a very large part of India’s total fertilizer subsidy budget wherein prices of Ammonia have a crucial role. Ammonia prices, though moderated a bit, remained at an elevated level of USD 1,100/tonne in August 2022. Further, nearly one-third of the domestic urea requirement is being met through imports wherein depreciation of INR would further add to the subsidy budget.

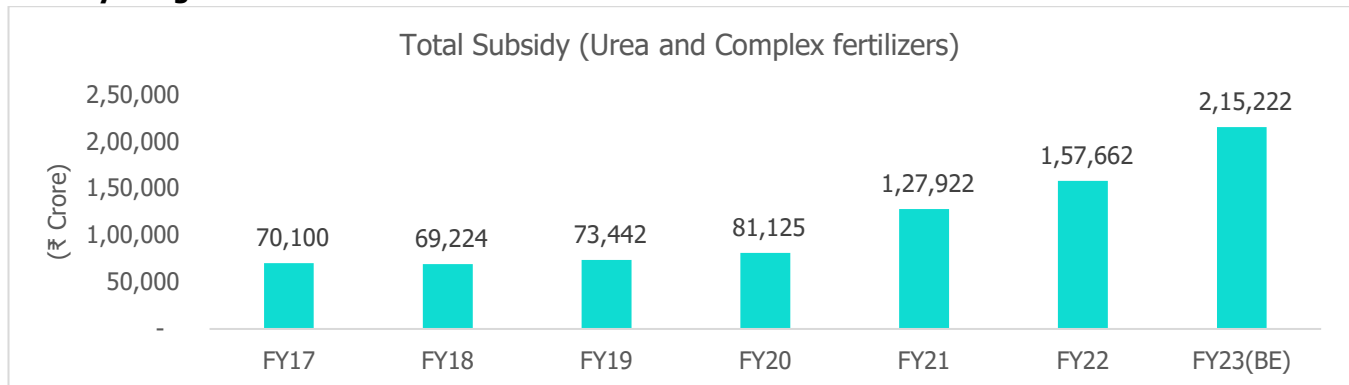
For manufacturing complex fertilizers, apart from natural gas, Phosphoric Acid, Rock Phosphate, Potash and Sulphur are among the key input materials whose prices also remain at an elevated level, except for Sulphur prices, which have corrected over the last three months. India has a very high import dependency for Phosphoric Acid, Rock Phosphate and Potash wherein apart from their elevated prices, depreciation of rupee would require a higher subsidy budget to keep the retail prices for farmers at an affordable level.



Source: Dept. of Fertilizers

Although there is some moderation in the prices of urea from its peak level, it remains at an elevated level, whereas prices of DAP continued to remain at an elevated level till August 2022 on the back of elevated raw material and gas prices.

### Subsidy Budget Allocations



Source: Dept. of Fertilizers

Historically, the subsidy budget used to be in the range of ₹70,000 crore to ₹80,000 crore p.a. during FY17 to FY20. The total subsidy outlay increased by 58% during FY21 to ~₹1,28,000 crore mainly due to additional allocation under the Atmanirbhar package of ~₹62,600 crore targeted towards clearing previous subsidy backlogs.

Subsidy pay-out increased further to ~₹1,58,000 crore in FY22 with an increase in gas prices leading to a higher subsidy for urea whereas an increase in raw material prices led to a high subsidy for complex fertilizers during the year.

In the budget for FY23, the government had initially provided for a total subsidy of ₹1,05,000 crore, which was subsequently enhanced by another ₹1,10,000 crore, looking at the elevated level of raw material and gas prices taking the total subsidy budget for FY23 to ₹2,15,000 crore.

### CareEdge View

As prices of key raw materials remain elevated and natural gas becomes expensive too, CareEdge believes the double whammy along with the rupee's depreciation could lead to a shortfall of ₹35,000 crore in the fertilizer subsidy budget.

"Notwithstanding the issues around raw material and natural gas prices, there has been a timely release of fertilizer subsidy by the government till now, which has resulted in lower receivables for fertilizer companies and consequent lower utilisation of working capital limits with adequate liquidity buffers in place. Moreover, the government has shown its intent to further enhance the subsidy budget for the upcoming Rabi season in case input costs remain elevated. However, if the fertilizer subsidy budget is not enhanced, then subsidy receivables of fertilizer companies could increase towards the end of FY23, which in turn would hurt the sector" said Hardik Shah, Associate Director – Corporate Ratings.

## Contact

|                     |                    |                           |                       |
|---------------------|--------------------|---------------------------|-----------------------|
| Padmanabh Bhagavath | Senior Director    | ps.bhagavath@careedge.in  | +91 - 022 - 6754 3407 |
| Ranjan Sharma       | Director           | ranjan.sharma@careedge.in | +91 - 079 - 4026 5617 |
| Hardik Shah         | Associate Director | hardik.shah@careedge.in   | +91 - 079 - 4026 5620 |
| Shruti Rachchh      | Analyst            | shruti.r@careedge.in      | +91 - 079 - 4026 5686 |
| Mradul Mishra       | Media Relations    | mradul.mishra@careedge.in | +91 - 022 - 6754 3596 |

## CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

Connect :



Locations: Ahmedabad | Andheri-Mumbai | Bengaluru | Chennai | Coimbatore | Hyderabad | Kolkata | New Delhi | Pune

## About:

CareEdge is a knowledge-based analytical group that aims to provide superior insights based on technology, data analytics and detailed research. CARE Ratings Ltd, the parent company in the group, is one of the leading credit rating agencies in India. Established in 1993, it has a credible track record of rating companies across multiple sectors and has played a pivotal role in developing the corporate debt market in India. The wholly-owned subsidiaries of CARE Ratings are (I) CARE Advisory, Research & Training Ltd, which offers customised advisory services, credible business research and analytical services (II) CARE Risk Solutions Private Ltd, which provides risk management solutions.

## Disclaimer:

This report has been prepared by CareEdge (CARE Ratings Limited). CareEdge has taken utmost care to ensure accuracy and objectivity based on information available in the public domain. However, neither the accuracy nor completeness of the information contained in this report is guaranteed. CareEdge is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of the information contained in this report and especially states that CareEdge has no financial liability whatsoever to the user of this report.