Agriculture Allied Industries: FY19 review & FY20 outlook

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Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-022- 6837 4433

Author
Urvisha H Jagasheth
Research Analyst
urvisha.jagasheth@careratings.com
91-22-6837 4410

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
+91-22-6837 424

In the previous year, India's agri-GVA grew by merely 2.9%. Low farm growth led to a slowdown in the ***fertilizer and agrochemical industry.*** In this report we summarise the performance of these two industries during FY19 and give an outlook for FY20.

- **Fertilizer Industry**

Domestic Fertilizer Production and Imports during FY19

Overall production of fertilizers increased marginally by 0.3% during FY19. The below normal Southwest monsoons and deficient Northeast monsoons impacted the sowing of Kharif and Rabi crops which led to the overall acreage being down by 2.6% (with a major drop coming from pulses, paddy and coarse cereals), thus not inducing the production of fertilizers on a cumulative basis. Increase in raw material prices has also impacted the production of fertilizers to an extent.

Imports on the other hand have increased by 14.4% during the year. Import dependence (imports as a proportion of production plus imports) has increased to 32% during FY19 (from 29% during FY18).

Domestic production of **urea** (which constituted about 58% of the overall fertilizer production during the year) has been stable and has not increased from its FY18 production level even after the increase in the production capacity during the year (Chambal Fertilizers commissioned the Gadepan-III Greenfield unit) while imports have increased by 24.2%. Unavailability/unviability of certain amount of the production capacity has suppressed urea production during FY19.

Import dependence of urea has increased to 26% during FY19 from 20% during FY18. Presently India mainly imports Urea from Oman, Iran and China. Sales increased by 4.6% during FY19.

Diammonium Phosphate (DAP) production has fallen by 16.2% on account of higher raw material prices (phosphoric acid) and also as the industry maximized the availability of phosphoric acid by shifting its production from DAP to NPK fertilizers. DAP demand was being catered mainly through imports. Phosphoric acid prices had increased by 26% during FY19 period.

Imports on the other hand have risen sharply by 57.1% to make up for the domestic shortfall and also was more conducive to import the finished product rather than to manufacture it. India mainly imports DAP from China, Saudi Arabia, USA and Jordan.

India meets its Potassium chloride (commonly referred to as **Muriate of Potash or MOP**) requirements completely through imports. We import MOP from Canada, Russia, CIS+ Belarus, Israel, Jordan and Lithuania. Imports have decreased by 10.2% during FY19.

Single superphosphate (SSP) production increased by 5.2% during the fiscal due to the increase in demand for phosphatic grade fertilizers. SSP is indigenously produced and procured. Increase in DAP prices bought in the shift in preference as farmers opted for the lower 'P' grade product than the higher 'P' grade product (like DAP).

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

				Y-O-Y Change (%)	
	FY17	FY18	FY19	FY18	FY19
Overall Fertilizer Production	413	413	415	0.0%	0.3%
Overall Fertilizer Imports	161	171	195	6.1%	14.4%
Urea Production	242	240	240	-0.7%	0.0%
Urea Imports	55	60	74.5	9.0%	24.2%
Non- Urea Production**	173	175	177	1.1%	1.1%
DAP Production	43	46	39	7.3%	-16.2%
DAP Imports	44	42	66	-3.8%	57.1%
SSP Production	44	39	41	-12.1%	5.2%
MOP Imports	37	47	42	26.8%	-10.2%

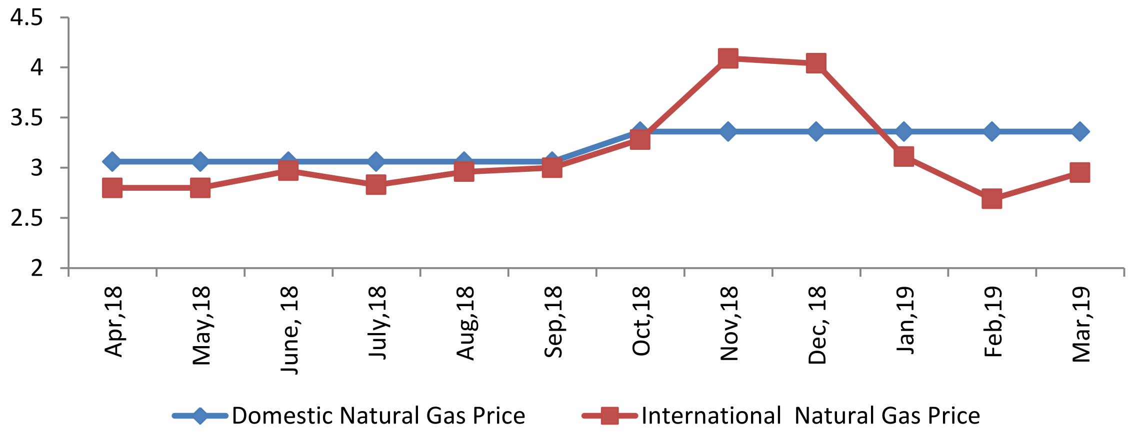
Source: Department of Fertilizers, CMIE, Office of the Economic Adviser (figures do not add up due to different sources)

Note: Non-Urea* Fertilizers include NPK fertilizers, Ammonium nitrate, ammonium sulphate, DAP and SSP #lakh metric tonnes

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 32 urea plants in India, 29 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, the government revises the domestic natural gas price every six months i.e. April-September and October-March. During H1-FY19 price prevailing for gas produced from local fields was USD 3.06/mmBtu and increased to USD 3.36/mmbtu during H2-FY19.

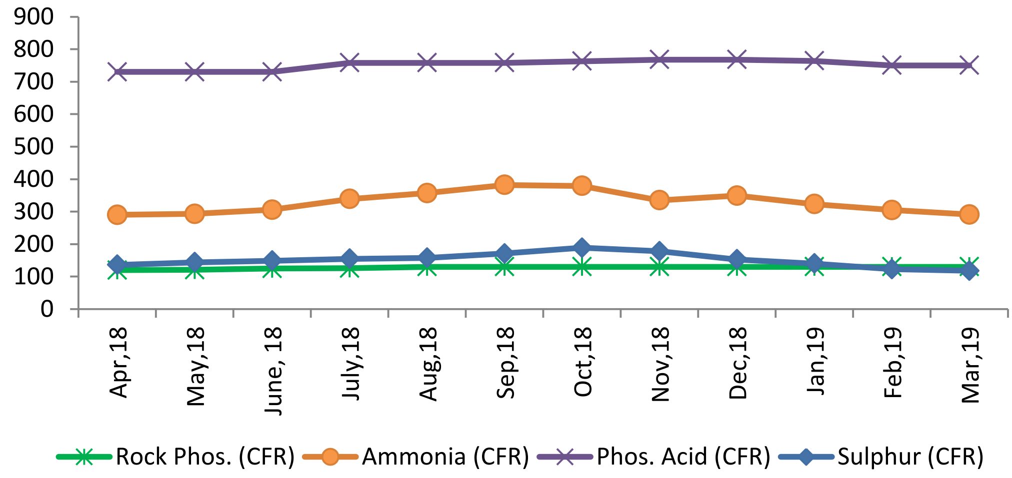
Currently (H1-FY20) the price for gas produced from local fields has been revised to USD 3.69/mmBtu which is 9.8% increase from USD 3.36/mmBtu.

Henry Hub prices rose sharply during November 2018 as natural gas inventories were at their lowest levels for October since 2010 as the anticipation regarding a colder than expected winter caused an unexpected spike in the natural gas price by 24.7% during November 2018 on an m-o-m basis in the US markets. Prices of R-LNG are usually governed by market dynamics and are linked with the global crude oil prices.

India imports the raw materials needed for manufacturing of fertilizers. Raw material prices increased on a whole during the year as plant closures in China and higher global demand impacted the availability. Prices of phosphoric acid, rock phosphates, ammonia and sulphur have increased by 25.5%, 9.7%, 6.2% and 11.2% respectively.

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

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



Source: Department of Fertilizers

- **Agrochemicals Industry**

Domestic Agrochemicals Production, Exports and Imports during FY19

Note: Companies are not required to mention segment wise production i.e. production of insecticides, fungicides, herbicides, rodenticides. Hence the production numbers will not match the export and import numbers. Production of only technical grade is available.

Crop protection chemicals are manufactured as technical grades and converted into formulations for agricultural use. The Indian Agrochemical value chain comprises of technical grade manufacturers, formulators producing the end products, distributors and end use customers.

Production of agrochemicals fell by 0.2% during FY19. Low pest infestation, decline in sowing of key crops and a higher than normal inventory level has led to a fall in production.

Increase in overall exports by 12.4% can be attributed to an increase in herbicides and insecticides exports.

Table 2: Production, Export and Imports of agrochemicals (thousand tonnes)

	Production*	Change (y-o-y)	Exports	Change (y-o-y)	Imports	Change (y-o-y)
FY17	213		378		100	
FY18	213	-0.4%	410	8.5%	111	10.9%
FY19	212	-0.2%	461	12.5%	117	4.9%

Source: CMIE, Ministry of Commerce

*technical grade only

Table 3: Export and Imports of key agrochemicals (thousand tonnes)

	Exports	Change (y-o-y)	Imports	Change (y-o-y)
Insecticides				
FY17	58		18	
FY18	70	20.5%	17	-4.0%
FY19	87	24.7%	19	8.0%
Fungicides				
FY17	174		7.7	
FY18	166	-4.4%	8.4	9.3%
FY19	193	16.1%	8.2	-1.4%
Herbicides				
FY17	78		27	
FY18	100	27.7%	30	7.6%
FY19	106	6.0%	36	21.6%

Source: CMIE, Ministry of Commerce

During the year, ban on the use of organophosphorus compounds in several states, erratic rainfall in key agrarian states and poor price realization in the key crops has impacted the margins of the industry. The sharp increase in crude oil prices and plant shutdowns related to pollution curbs in China has also led to an increase in prices of raw materials.

CARE Ratings Outlook

Fertilizer Industry

Going forward, given the government's focus will be to ease the agrarian crisis through budgetary support, increased irrigation coverage and better procurement **we expect the overall fertilizer production is to grow by 1-2% by the end of FY20.**

- 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 leading to an increase in the use of fertilizers.
- We expect production to pick up post July 2019 onwards once there is more clarity regarding the nutrient based subsidy rates.
- With the commissioning of the Gandepan-III urea plant and with the Ramagundam urea plant coming on board during Q3-FY20, production of urea is also poised to increase, thus also reducing the quantum of urea imports. Urea imports constituted 38% of the overall fertilizer imports during FY19.

Agrochemicals Industry

India's agrochemical industry in terms of active ingredient (technical grade) production is to be muted during FY20. In the past production has been fallen by 0.4% and 0.2% during FY18 and FY19 respectively.

- Volatility in crude oil prices and apprehensions related to the Chinese economy is to affect the production of the active ingredient.
- There is a silver lining for the agrochemicals industry as exports will continue gathering momentum and boost the revenues of agrochemical manufacturers. (~50% of the demand comes from domestic consumers while the rest goes towards exports).
- **Exports of agrochemicals are to grow by 10-12% going forward during FY20**.

CORPORATE OFFICE:
CARE Ratings Limited (Formerly known as Credit Analysis & Research Ltd)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022; CIN: L67190MH1993PLC071691
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457
E-mail: care@careratings.com I Website: www.careratings.com

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