Indian Fertilizer Industry
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Production, Imports and Sales during H1-FY21

Table 1: Production, Imports and Sales of Key Fertilizers (Unit: Lakh Metric Tonnes- LMT)

	2019-20	2020-21	2019-20	2020-21
Overall Fertilizers Production	208	215	1.1%	3.7%
*Overall Fertilizers Imports	86	86	-5.6%	0.5%
*Overall Fertilizers Sales	261	326	10.9%	25.1%
Urea Production	118	124	-1.4%	4.9%
Urea Imports	37	45	11.4%	22.7%
Urea Sales	156	166	1.0%	6.5%
DAP Production	22	19	21.9%	-11.3%
DAP Imports	32	36	-20.1%	12.1%
DAP Sales	50	64	3.9%	28.0%
MOP Imports	23	23	11.1%	2.0%
MOP Sales	16	18	-4.0%	15.6%
SSP Production	22	26	5.0%	16.8%

Source: Department of Fertilizers, CMIE, Office of the Economic Adviser

Note: *Overall Imports and Sales is April-August;
Fertilizer sales are considered as a proxy for demand.

- **Overall fertilizers** production has increased by 3.7% during H-FY21 after registering a modest growth of 1% during H1-FY20. The country witnessed an on-time arrival of Southwest monsoon, followed by a quick spread across the region which has resulted in higher sowing thus augmenting the increase in production. Increase in production can also be ascribed to restocking activities the undertaken by the manufacturers order to keep up with the sharp increase fertilizer sales witnessed during the year. On the other hand, production fell by 0.3% during September '20 mainly due to the high base effect. Imports have increased by 0.5% supported by the sharp increase in urea imports. Import dependence (imports as a proportion of production plus imports) has fallen from it being 33% to 32% during FY21 (April-August).
- Production of **urea** increased by 4.9% during H1-FY21. Production increased as manufacturers were quick enough to resume operations once the government announced relaxations came into effect 15th April 2020 onwards. Imports have risen sharply by 22.7% to supplicate the increase in demand. Import dependence of urea (imports as a proportion of production plus imports) has increased to 27% during H1-FY21 as compared with it being 24% during H1-FY20.
- **DAP** production fell by 11.3% during H1-FY21. Reason attributable to the decline in production is due to the shortage in raw material availability and labour constraints. Imports on the other hand have risen by 12.1% in the same aforementioned period.

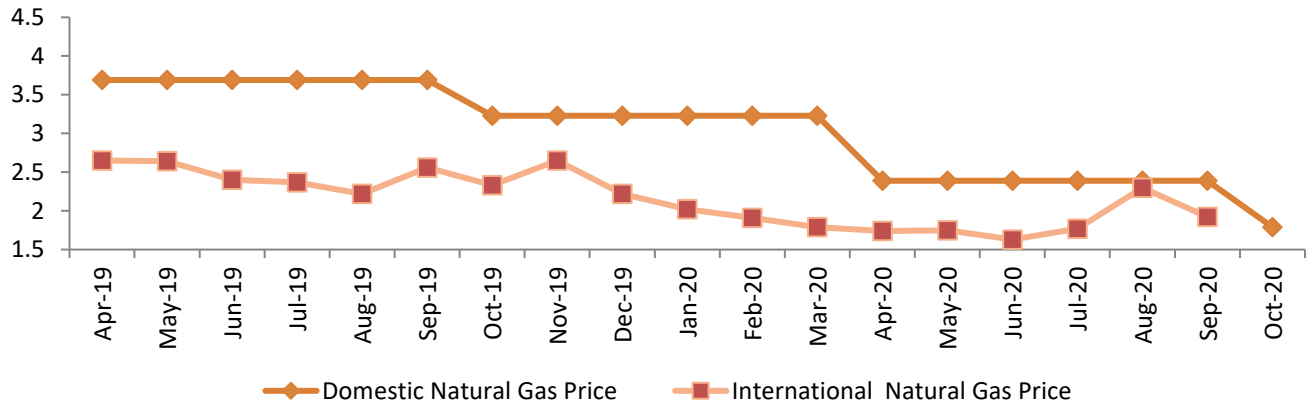
- **MOP** imports have increased by 2% during H1-FY21. India meets its Potassium chloride (commonly referred to as Muriate of Potash or MOP) requirements completely through imports from Canada, Russia, CIS+ Belarus, Israel, Jordan and Lithuania.
- The production of **SSP** which is an indigenous phosphatic multi-nutrient fertilizer increased by 16.8% during H1-FY21. SSP is a cheaper alternative to DAP.
- Overall **sales** of fertilizers have increased by 25.1% during FY21 (April-August). Sales of urea, DAP and MOP have increased by 6.5%, 28% and 15.6% during H1-FY21. Initially in the start of FY21, panic buying by farmers and dealers coupled with the low prices of the commodity had led to increase in sales of fertilizers. Farmers were stocking up fertilizers for the on-going kharif season and were building up stocks in order to avoid any logistical issues which could have been faced due to the coronavirus pandemic. But in the last 2-3 months due to a favourable monsoon season which has also resulted in a record high kharif sowing season, the momentum in increase in sales has been supported. In September however sales have moderated as the kharif sowing season is over.

Trend in prices of key input raw materials

India imports the raw materials needed for manufacturing fertilizers. Natural gas is used as feedstock for the manufacturing of urea and accounts for 50%-80% of the raw material cost. The fertilizer industry is the leading consumer of domestic natural gas. Additional requirement of natural gas is supplied through imports in the form of RLNG. Out of 31 urea plants in India, 28 are gas based and 3 are naphtha based. Natural gas is preferred as:

1. It is intrinsically hydrogen rich and therefore contributes more hydrogen compared to other feedstock on a unit weight basis.
2. The heavier feedstock like coal and oil are more complex to process and therefore the capital costs are higher compared to natural gas.

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



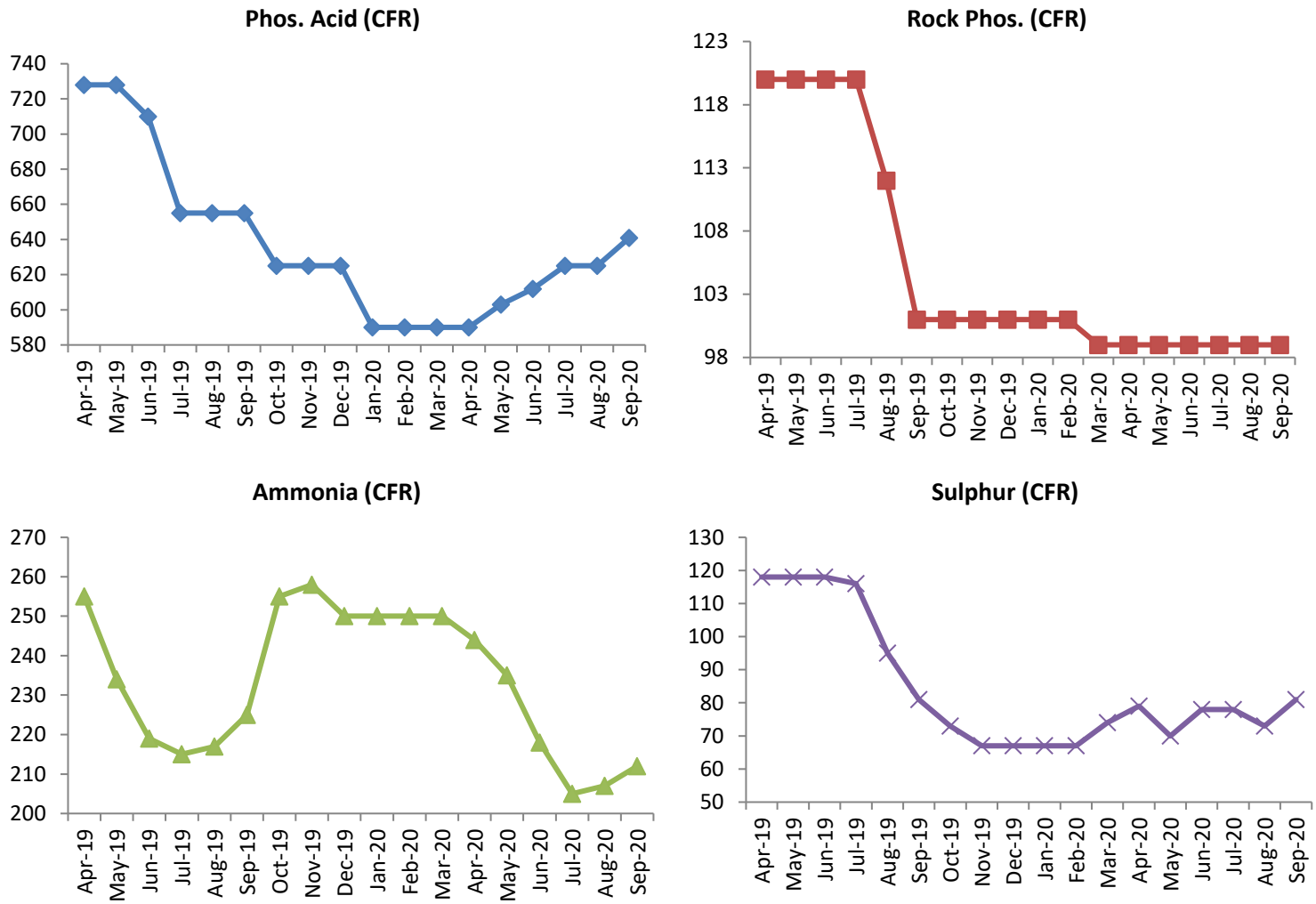
Source: PPAC and EIA

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. Currently (H2-FY21) the price for gas produced from local fields has been revised to USD 1.79/mmBtu which is the lowest price ever set as per the New Domestic Gas Policy.

As per our estimates, a 25.1% fall in natural gas prices could potentially lead to a 12% decrease in cost of production of urea, thus decreasing the working capital intensity of the fertilizer manufacturers and it will also act as a relief for the fiscal spending of the government while disbursing the urea subsidy, which is already constrained at the moment. This also comes at a good time as the finances of the centre are already strained with the COVID-19 pandemic on the loose.

Prices of R-LNG are usually governed by market dynamics based on contracts and are linked with the global crude oil prices. However, soon fertilizer plants could be taking delivery on India's first gas exchange (prices are based on market demand-supply) — the Indian Gas Exchange (IGX) which has been launched in the start of FY21. The exchange currently is only dealing with delivery of imported natural gas (LNG) and not of domestic natural gas price which is formula driven.

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



Source: Department of Fertilizer

Prices of phosphoric acid, rock phosphates, ammonia and sulphur have fallen by, 10.5%, 14.3%, 3.2% and 28.9% on a y-o-y during H1-FY21.

Manufacturers have passed on the benefit of soft raw material prices by lowering the MRP of decontrolled fertilizers which has greatly supported the increase in sales as well.

Status on the Progress of the Revival of 5 fertilizer plants

The government is reviving 5 closed fertilizer plants - 4 of Fertilizer Corporation of India Limited (FCIL) in Talcher, Ramagundam, Gorakhpur and Sindri and 1 of Hindustan Fertilizer Corporation Ltd. (HFCL) in Barauni. This is being done by setting up new ammonia-urea plants with a capacity of 12.7 LMT (Lakh Metric Tonne) per annum. The Government expects that with the commissioning/ start of the above plants, it can increase indigenous urea production significantly leading to a substantial reduction in imports and make India self-sufficient in the years to come.

- Ramagundam Fertilizers and Chemicals Limited (RFCL) has already achieved 99.7% (upto September 2020) of physical progress but there has been some delay (due to COVID-19) in completion of a small component of physical work. Presently the project is in pre-commissioning/commissioning stage.
- Gorakhpur, Sindri, Barauni fertilizer plants have achieved 82.6%, 77.2% and 76.4% of progress respectively (up to September 2020). It is expected that Gorakhpur, Barauni and Sindri plants will start production by 2021.
- Overall project progress for the Talcher Fertilizer Plant in Odisha is around 6.1%.

Post the commissioning of all the above plants the domestic indigenous urea production is slated to increase by at least 63.5 LMT/year which will bring down the imports of urea by 70% (assuming FY20 level of imports).

Subsidies offered towards the Fertilizer Sector

The fertilizer industry is highly regulated and monitored by the government. The difference between the cost of production which is higher than the price at which the fertilizer is sold to the beneficiary, is reimbursed by the Government in the form of subsidies. Whenever there is shortage of funds, the Government liquidates the pending subsidy by arranging loans under a Special Banking Agreement (SBA).

While the MRP of urea is fixed and controlled by the Central Government that is not the case with decontrolled fertilizers where in the manufacturers have the liberty to price the product freely and according to the prevailing market conditions.

Table 2: Allocation of the Subsidy within the Fertilizer Sector (figures in Rs/crore)

				Change y-o-y (+/-)	
	2018-2019 (A)	2019-2020 (P)	2020-2021 (BE)	2019-2020 (P)	2020-2021 (BE)
Urea Subsidy	46,514	54,755	47,805	17.7%	-12.7%
Nutrient based Subsidy	24,090	26,369	23,504	9.5%	-10.9%
Total	70,605	81,124	71,309	14.9%	-12.1%

Source: Budget.nic, Controller General of Accounts

Note 2019-20 figures have been sourced from CGA and are Provisional; A-Actuals; BE Budget Estimates

The fertilizer subsidy to be disbursed during FY21 has been reduced by 12.1% to Rs 71,309 crore which could be insufficient for the fertiliser industry which has time and again faced issues regarding inadequate subsidy provisioning. This could lead to a subsidy backlog, thereby impacting the liquidity position of the industry.

Within the subsidy Rs 47,805 crores has been earmarked as the urea subsidy and the remaining Rs 23,504 crores has been earmarked for the nutrient based subsidy.

Under NBS, the subsidy given to the companies is fixed annually on the basis of its nutrients content (i.e. Nitrogen, Phosphate, Potash and Sulphur) on per kg basis which is converted into subsidy per tonne depending upon the nutrient content in each grade of the fertilizers. These rates are determined taking into account the international and domestic prices of P&K fertilizers, exchange rate, inventory level in the country.

Table 3: Rates of Nutrients under NBS (Unit: Rs/kg)

Nutrient Type	2019-20	2020-21	Change y-o-y (+/-) 2019-20	2020-21
Nitrogen (N)	18.9	18.8	0.0%	-0.6%
Phosphorus (P)	15.2	14.9	0.0%	-2.2%
Potash (K)	11.1	10.1	0.0%	-9.1%
Sulphur (S)	3.6	2.4	31.9%	-33.4%

Source: PIB

For FY21, there has been a downward revision for the nutrients covered the NBS. It is estimated that the subsidy on phosphatic and potassic fertilisers during the current financial year would cost Rs 22,187 crore and the government also approved the inclusion of a complex fertilizer namely Ammonium Phosphate (NP 14:28:0:0) under the NBS Scheme.

Table 4: Fertilizer Subsidies paid upto the end of September 2020 (Unit: Rs/crore)

	2020-21 (BE)	Actuals up to September 2020	% of Actuals to Budget Estimates
Urea Subsidy	47,805	43,814	92%
Nutrient Based Fertilizers Subsidy	23,504	11,577	49%
Total	71,309	55,391	78%

Source: Controller General of Accounts

In the new financial year, FY21 the government has already paid 78% of the budgeted subsidy amount upto September 2020. The government has been more aggressive in disbursing the urea subsidy as compared to the NBS. In the corresponding period of the previous financial year the government had disbursed 70% of the urea subsidy and 69% of the NBS.

Given the increase in sales of fertilizers in the current financial year, the budgeted subsidy amount is slated to increase, considering the government has already disbursed 92% of the budgeted urea subsidy upto September 2020 and also as the sowing of the rabi season is still pending which will also lead to an increase in sales of fertilizers.

Conclusion/ Outlook for FY21

Vibrancy of rural demand and markets has been very promising despite the coronavirus pandemic and macroeconomic uncertainty which has translated in improving the underlying macros for the Indian fertilizer industry. With surplus reservoirs levels, record high kharif crop sowing and good rainfall during the monsoon season, demand for the procurement of fertilizers has been promising till date. Sales have increased sharply by 25.1% during FY21 (April-August) and going forward with the increase in liquidity of farmers, good prospect for the rabi season coupled with the vivacity of the rural economy, demand for fertilizers for the rest of FY21 seems sanguine.

- Higher MSP procurement, high offtake of seeds and the prioritization of agriculture and businesses involved in the food chain by the Indian government will support the demand/sales of fertilizers going forward.
- The area under cultivation has risen due to the timely arrival and progress of the monsoons.
- Decontrolled fertilizer sales is also to increase on the back low prices of DAP and SSP and the government's thrust on improving balanced nutrition. Usually the demand for DAP and DAP blends increases during rabi sowing.

The overall fertilizer production is to grow by 4-6% by the end of FY21. Overall fertilizer production had increased by 0.3% and 2.7% during FY19 and FY20 and has increased by 3.7% during H1-FY21.

- We expect production to increase in the coming months on the back of restocking activities undertaken by fertilizer manufacturers. Softening of raw material prices too will aid in spurring production.
- Currently the liquidity situation of manufacturers seems to have improved. Fall in input costs has helped the working capital situation of manufactures.
    - Urea manufacturers are to benefit with the current low gas prices. Gas prices have furthered fallen during the second revision.
    - Another positive for urea makers is the clarity the government has finally provided in March with regards to the reimbursement of additional fixed cost.
    - DAP prices are also low which will have an impact on working capital of decontrolled fertilizer manufacturers as well.

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