

## Indian Fertilizer Industry September 2020 update

September 10<sup>th</sup>, 2020 | Industry Research

### Production, Imports and Sales during 2020-21

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	134	140	-0.4%	3.9%
Overall Fertilizers Imports	51	51	-19.3%	1.0%
Overall Fertilizers Sales	261	326	10.9%	25.1%
Urea Production	76	82	-6.2%	8.6%
Urea Imports	17	22	-26.2%	31.3%
Urea Sales	124	138	-0.1%	11.7%
DAP Production	15	13	32.5%	-16.6%
DAP Imports	23	20	-15.4%	-16.3%
DAP Sales	37	51	0.7%	36.3%
MOP Imports	19	13	16.1%	-30.1%
MOP Sales	12	14	-12.6%	13.4%
SSP Production	11	12	7.8%	12.7%

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

Note: Overall Imports and SSP production is April-June;  
Overall fertilizer, urea and DAP Production & urea, DAP and MOP imports is April-July;  
Sales Data is April-August;  
Fertilizer sales are considered as a proxy for demand.

- **Overall fertilizers** production has increased by 3.8% during FY21 (April-July) after registering a negative growth of 0.4% in the corresponding period in the previous financial year. The country witnessed an on-time arrival of Southwest monsoon, followed by a quick spread across the regions 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 manufactures order to keep up with the sharp increase fertilizer sales witnessed during the year. Imports (Q1-FY21) have increased by 1% supported by the sharp increase in urea imports.

- Production of **urea** increased by 8.6% during FY21 (April-July). Production increased as manufacturers were quick enough to resume operations once the government announced relaxations came into effect 15<sup>th</sup> April 2020 onwards. Imports have too have risen sharply by 31.3% to supplicate the increase in demand.

- **DAP** production fell by 16.6% during FY21 (April-July). Reason attributable to the decline in production is due to the shortage in raw material availability and labour constraints owing to the shutdown. Imports too have fallen by 16.3% in the same aforementioned period.

- **MOP** imports have fallen sharply by 30.1% during FY21 (April-July). India meets its Potassium chloride (commonly referred to as Muriate

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of Potash or MOP) requirements completely through imports from Canada, Russia, CIS+ Belarus, Israel, Jordan and Lithuania.

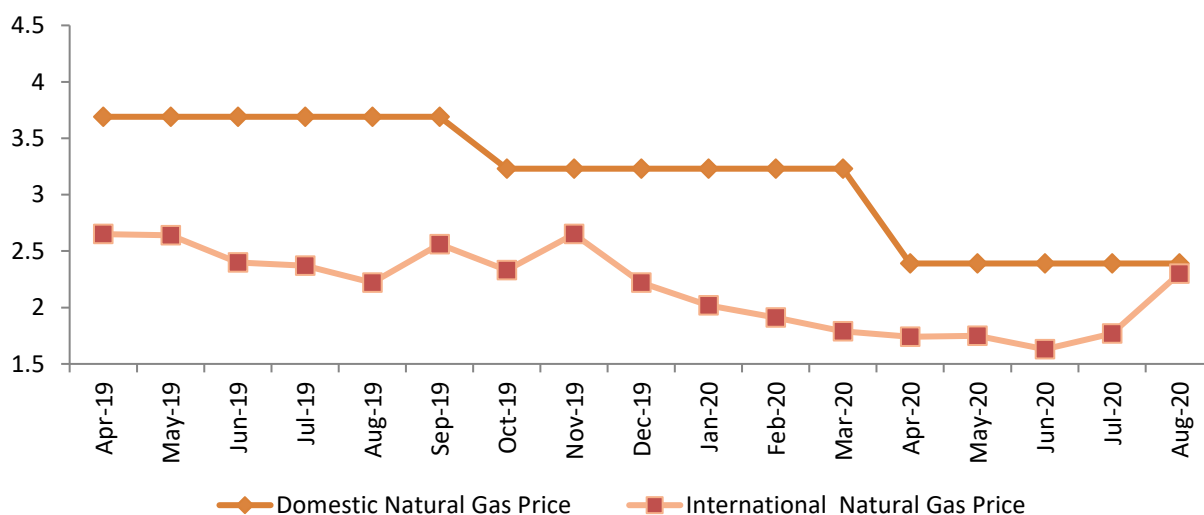
- The production of **SSP** which is an indigenous phosphatic multi-nutrient fertilizer increased by 12.7% during Q1-FY21. SSP is a cheaper alternative to DAP.
- Overall sales of fertilizers have increased by 25.1% during FY21 (April-August). Sales of urea, DAP and MOP have increased by 11.7%, 36.3% and 13.4% in the same aforementioned period. 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.

### 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)**



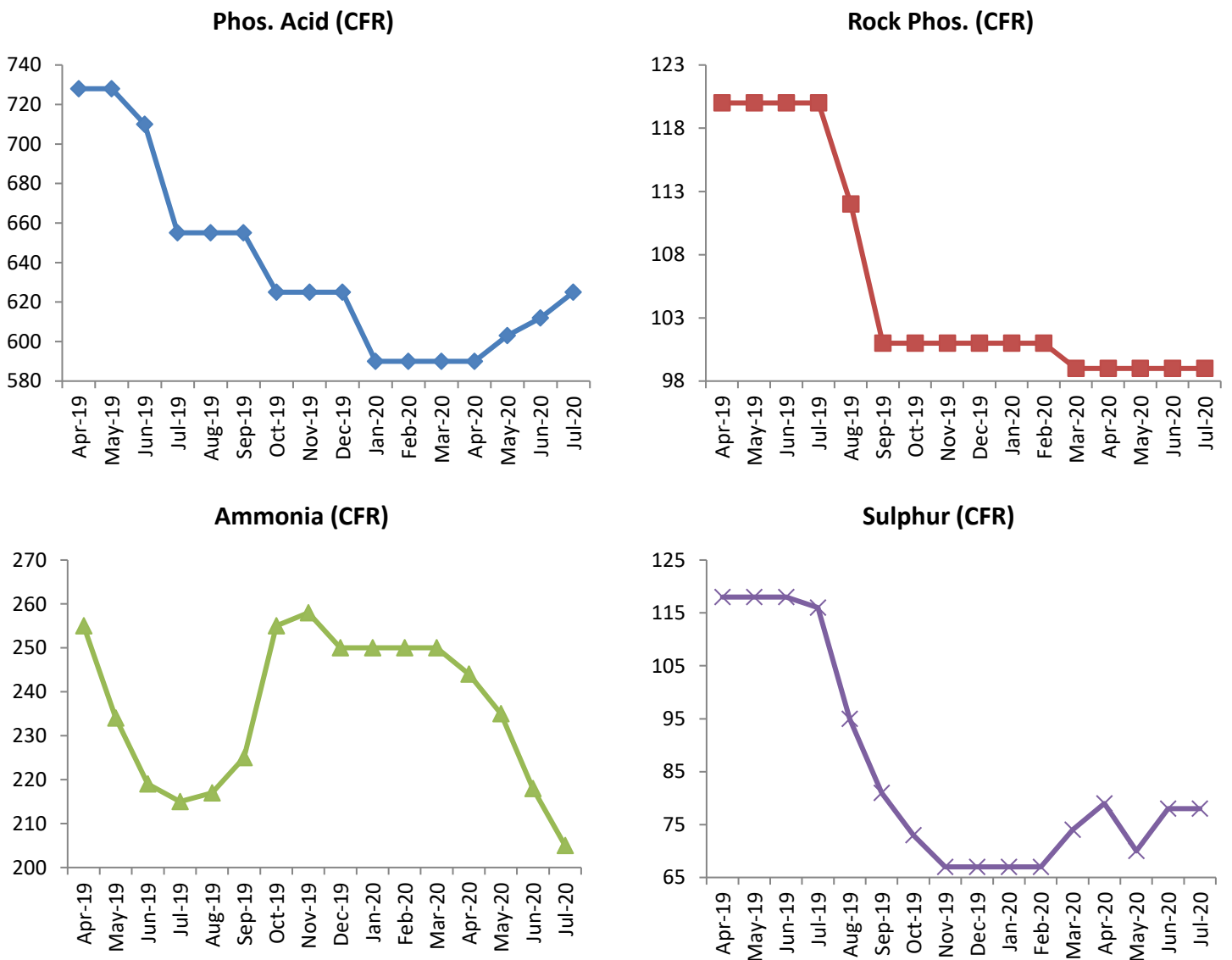
Source: PPAC and EIA

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 (H1-FY21) the price for gas produced from local fields has been revised to USD 2.39/mmBtu which is the lowest price ever set as per the New Domestic Gas Policy.

A 26% fall in natural gas prices, as per our estimates could potentially lead to a 12.5% decrease in cost of production of urea, thus decreasing the working capital intensity of the fertilizer manufacturers. Any fall in natural gas price is a relief for the government’s fiscal spending while disbursing the urea subsidy.

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 13.9%, 17.5%, 2.3% and 35.1% on a y-o-y during April-July 2020. Manufacturers have passed on the benefit of soft raw material prices by lowering the MRP of decontrolled fertilizers.

## 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 July 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 90.4%, 81.1% and 81% of LSTK respectively (upto July 2020). It is expected that Gorakhpur, Barauni and Sindri plants will start production by 2021.
- Pre-project activities are in progress for the Talcher Fertilizer Plant in Odisha and project activities on the site are expected to commence soon.

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)**

	2018-2019 (A)	2019-2020 (P)	2020-2021 (BE)	Change y-o-y (+/-)	
				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. Additionally, the Ramagundam unit is also expected to start production during FY21 supplanting the increase in the urea subsidy requirement during the year.

If prices of raw materials (particularly of natural gas) are to rise during the year, this could prove to be problematic and challenging for the government.

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 up to the end of July 2020 (Unit: Rs/crore)**

	2020-21 (BE)	Actuals up to July 2020	% of Actuals to Budget	Estimates
Urea Subsidy	47,805	21,729		45%
Nutrient Based Fertilizers Subsidy (NBS)	23,504	9,400		40%
Total	71,309	31,129		44%

Source: Controller General of Accounts

In the new financial year, FY21 the government has already paid 44% of the budgeted subsidy amount upto July 2020. The government has been more aggressive in disbursing the urea subsidy as compared to the NBS.

### Conclusion/ Outlook for FY21

The underlying macros for the Indian fertilizer industry look promising despite the coronavirus pandemic and macroeconomic uncertainty. With surplus reservoirs levels, record high kharif crop sowing and plentiful 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 revival of the rural economy, demand for fertilizers for the rest of FY21 seems sanguine for the industry.

- Higher MSP procurement, timely PM-KISAN disbursement, 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 (we are revising it from our early forecast of 3-4%). Overall fertilizer production had increased by 0.3% and 2.7% during FY19 and FY20.**

- 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.
  - o Commissioning of the Ramagundam plant during FY21 will also add onto the overall fertilizer production.
- Currently the liquidity situation of manufacturers seems to have improved. Fall in input costs has abetted the working capital situation of manufactures.
  - o Urea manufactures are to immensely benefit with the current low gas prices. Gas prices are expected to further with the second revision which will happened by the of September.
  - o Another positive for urea makers is the clarity the government has finally provided in March with regards to the reimbursement of additional fixed cost.
  - o DAP prices are also low which will have an impact on working capital of decontrolled fertilizer manufacturers as well.

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