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## Fertilizers Update for Q2-FY18

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### Fertilizer Production and Import levels for the 2<sup>nd</sup> Quarter of FY 2017-18

The current year has experienced near normal monsoons with an uneven distribution in most parts of the country.

**Table 1: Quarter Production levels of fertilizers (in terms LMT)**

	Q2-FY17	Q2-FY18	% Change
Overall Fertilizers	109.4	106.4	-2.7%

Source: Department of Industrial Policy & Promotion (DIPP)

**Table 2: Quarter Production levels of Urea and Non Urea based fertilizers (in terms LMT)**

	Q2-FY17	Q2-FY18	% Change
Urea	62.6	59.6	-4.8%
Non- Urea	47	46.9	-0.1%

Source: CMIE

**Table 3: Quarter Production levels of DAP and SSP (in terms LMT)**

	Q2-FY17	Q2-FY18	% Change
DAP	9.7	11.5	18.6%
SSP	11.1	9.9	-10.8%

Source: CMIE

**Table 4: Quarter Import levels of Urea, DAP and MoP (in terms LMT)**

	Q2-FY17	Q2-FY18	% Change
Urea	19.9	15.0	-24.7%
DAP	20.7	17.8	-14.2%
MOP	11.1	9.8	-11.4%

Source: Department of Fertilizer

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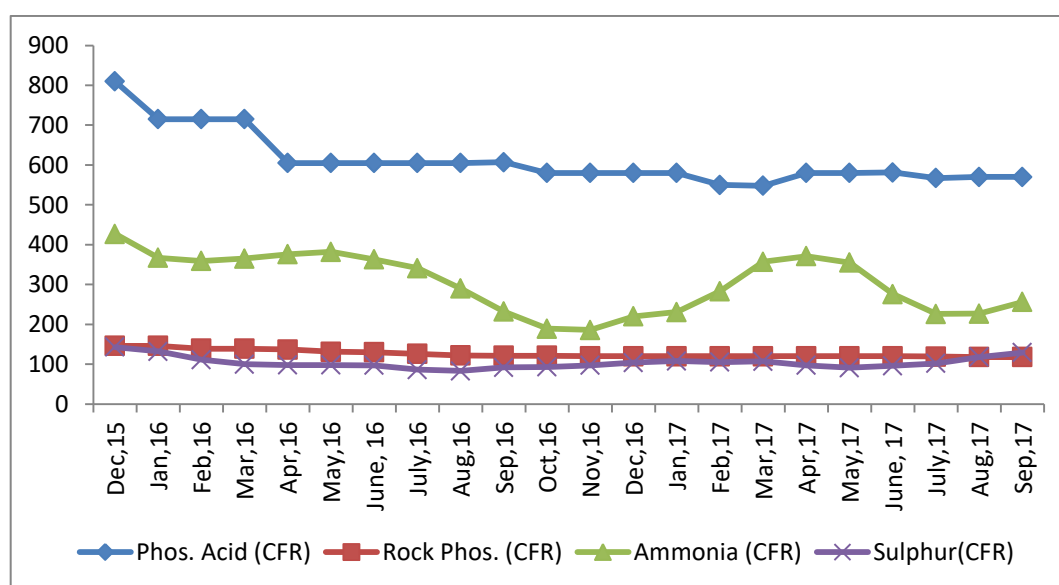
Overall the production of fertilizers as compared to the corresponding period in the previous year has been down as most of the companies which had a stockpile of inventory have been liquidating it. On a q-o-q basis, overall fertilizer production in the country has increased by 12.4%. We could attribute this increase due to the approach of the Rabi sowing season which starts from October onwards.

Urea production (which constitutes about 56% of the overall fertilizer production) is up by 7% on a q-o-q basis and the imports are down by 12% on a q-o-q basis. Urea imports are also down by 24.7% as compared to the imports of urea during Q2- FY17. This is a good sign as India aims to completely stop urea imports by 2022.

MOP imports are down by 24% q-o-q period basis. India imports MOP from Russia, Jordan, Israel, Canada, CIS + Belarus, Germany and Lithuania. DAP production is down by 13.4% on a q-o-q basis but the imports are up by 62% on a q-o-q basis. Prices of raw materials have also been falling in the global markets and price of DAP has also declined by 2% on a q-o-q basis period in the international markets.

SSP which is indigenous has observed a rise in the production on q-o-q basis by 11.2%.

**Chart 1: Prices of Raw Materials used for Fertilizer Production (USD/MT)**



Source: Department of Fertilizers

## On the Policy Front

**Direct Benefit Transfer:** The Government has now introduced direct benefit transfer (DBT) for fertiliser subsidies in seven small states and union territories including Delhi. Additionally 12 big states including Punjab, Madhya Pradesh and Andhra Pradesh are ready for the phase II launch in the next quarter and the target is to cover the entire country by January 2018. More than 60% of deployment of the PoS machines been completed so far.

**Additional Subsidy Disbursement:** To reduce the burden of fertiliser subsidy backlogs during 2016-17, a special banking arrangement (SBA) of Rs 10,000 crore has been approved by the Cabinet Committee on Economic Affairs (CCEA). The CCEA has also approved that, in future, the Department of Fertilisers would avail the SBA with the concurrence of the Department of Expenditure. The government is making available urea and 21 grades of P&K (phosphate and potassium) fertilisers to farmers at subsidised prices through fertiliser manufacturers and importers. The government interest liability is limited to the G-Secs rate.

## Concluding Remarks

- **On observing the financials of 13 fertilizer companies there has been a 25.5% jump in the Net Profit Margins (Q2-FY18 vis-à-vis Q2- FY17).** This was due to falling natural gas prices which constitutes 55%-80% of the manufacturing cost of urea production.

- From 1<sup>st</sup> October, 2017 onwards till 31<sup>st</sup> March, 2018 the domestic natural gas price has been fixed at \$2.89/MMbtu which is 17.5% higher than the previous period gas price. This could lead to an increase in the operating expenses of fertilizer companies which use natural gas as a feedstock. **Care Ratings believes this could add to the subsidy arrears of the government as the input costs have increased which is needed to be reimbursed in the form of subsidies by the government.**
- Care Ratings believes that the production of fertilizers will increase in the coming quarters at a 4% rate, especially during the second half of the year (H2-FY18) when it will be the sowing season for the Rabi crops.**

## Annexures

- There are 30 Urea Manufacturing units in India out of which 27 use Natural Gas as a feedstock.
- As per the revised Gas Utilization policy, CGD companies are to get full priority of consumption of domestic natural gas. So now fertilizer companies plug his gap by the use of RLNG. GAIL pools the domestic and international gas prices under the Gas Pooling Policy introduced in 2015, to supply the feedstock at a uniform rate.
- RLNG is around 49% and Domestic Natural Gas constituents around 51%.
- Considering the rise in crude oil prices which could in turn lead to a rise in natural gas prices as well, we estimate the input cost of fertilizer companies to increase.

**Table 5: Trend in the Prices of Domestic Natural Gas**

	Domestic Natural Gas Price (GCV Basis)	% change (+/-)
1st Nov'14 – 31st Mar'15	5.05	
1st Apr'15 – 30th Sep'15	4.66	-7.7%
1st Oct'15 – 31st Mar'16	3.82	-18.0%
1st Apr'16 – 30th Sep'16	3.06	-19.9%
1st Oct'16 – 31st Mar'17	2.5	-18.3%
1st Apr'17 – 30th Sep'17	2.48	-0.8%
1st Oct'17 – 31st Mar'18	2.89	16.5%

Source: PPAC

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