

## Fertilizers Update for Q1-FY18

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### Fertilizer Production and Import levels for the 1st Quarter of FY 2017-18

With the early onset of monsoons in June, the sowing has improved during the ongoing Kharif season. Although the distribution across India has been inconsistent, overall south west monsoon is normal and is 5% above the long period average levels. The sowing has also been consistent.

**Table 1: Q-O-Q Production levels of fertilizers (in terms LMT)**

	Q1-FY17	Q1-FY18	% Change
Overall Fertilizers	96.5	94.7	-1.9%

Source: Department of Industrial Policy & Promotion (DIPP)

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

	Q1-FY17	Q1-FY18	% Change
Urea	56.7	55.6	-2.0%
Non- Urea	40.2	39.8	-1.0%

Source: CMIE

**Table 3: Q-O-Q Production levels of DAP and SSP (in terms LMT)**

	Q1-FY17	Q1-FY18	% Change
DAP	11.1	13.3	20.2%
SSP	9.6	8.9	-8.1%

Source: CMIE

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

	Q1-FY17	Q1-FY18	% Change
Urea	16.0	17.0	6.4%
DAP	15.6	11.0	-29.5%
MOP	5.5	12.9	134.2%

Source: Department of Fertilizer

Overall the production of fertilizers has been down as most of the companies which had a stockpile of inventory have been successful in liquidating it due to improved monsoon situation. On a q-o-q basis overall fertilizer production in the country it has declined by 1.9%.

Urea production is down by 2% on a q-o-q basis but its sales are up by 10%. The imports of urea are up by 6.4% in Q1FY18 when compared with imports during the Q1FY17.

MOP imports are up by 134.2% q-o-q mainly due to the low prices of MOP in the international markets. India imports MOP from Russia, Jordan, Israel, Canada, CIS + Belarus, Germany and Lithuania.

Production of Diammonium Phosphate (DAP) is up and its imports are down on the other hand, mainly due to the measures taken up by the government in order to have a balanced use of fertilizers (Soil health card) is coming into ply.

### On the Policy Front

**Direct Benefit Transfer:** Implementation of the direct benefit transfer earlier planned to be rolled out by June 2017 has now been pushed to 2018 as distribution of POS machines to the retailers has not been completed due to low availability. The policy has been rolled out on a pilot basis and almost two lakh point-of-sale (POS) machines have been installed across the country to roll out the DBT of fertiliser subsidies by March 31, 2018.

**Gas Pooling of Urea:** Supply of natural gas at uniformed prices to the fertilizer manufacturing plants has aided the industry in improving their financials, especially their operating margins and net profit margins as their main cost of production of fuel and power is now being supplied at a lower price. Out of the 30 urea manufacturing plants 27 are natural gas based the remaining 3 are naphtha based.

### Concluding Remarks

- *CARE Ratings believes there will be a further growth trajectory of the financials of the fertilizer manufacturing companies as the policies introduced to aid the fertilizer sector are playing in favour. When we observed the Q1 financials of 17 fertilizer companies there has been a 13% jump in the net profit margins of these companies on a q-o-q basis.*
- *CARE Ratings believes that the production of fertilizers will be increase in the coming quarters especially during the Q3FY18 when it will be the sowing season for the Rabi crops.*

Before the launch of DBT, fertiliser companies used to produce receipts of their sale at each district which was duly authenticated by company representatives and CAs, post that, more than 90% of the subsidy was credited within two months of the sale. Firms were paid the subsidy on receipt of their fertiliser at the railhead point or any approved godown of a district. Prior to this, till October 2012, they were getting the subsidy on despatch of material from their respective factories. With the implementation of DBT, the subsidy will be directly transferred to the manufacturers rather than to the beneficiary (which happens in the case of LPG DBT) and once the sale has been recorded on the POS machine post the aadhar card verification the subsidy will be disbursed to the manufacturer on a weekly basis and then on a real-time basis as and when the system stabilises.

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