

Revival of Fertilizer units: A move towards Import substitution?

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Overview

The Government would be 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, the indigenous urea production can increase significantly leading to substantial reduction in imports.

The commercial production from Ramagundam unit is likely to start by 2018 while for the other 4 units it would be by 2020.

The Cabinet had earlier in 2015 approved the setting up of a new ammonia-urea complex with capacity of 8.6 LMT per annum, at Namrup by Brahmaputra Valley Fertilizer Corporation Limited (BVFCL).

Further, under the provision of New Investment Policy (NIP), Matix Fertilizers & Chemicals Limited (Matix) has set up a Coal Bed Methane (CBM) based greenfield ammonia - urea complex at Panagarh, West Bengal with installed capacity of 13 LMT per annum. The commercial production of Matix has already started on 1st October, 2017.

Chambal Fertilizers & Chemicals Limited (CFCL) has proposed to set up a brownfield project with capacity of 13.4 LMT at Gadepan, Rajasthan, which is likely to start commercial production in January, 2019.

Table 1: Fertilizer units commissioned for Revival

| Name of Fertilizer plant | Location |
|---|--------------------------|
| Talcher Fertilizers Ltd. | Talcher, Odisha |
| Ramagundam Fertilizers & Chemicals Ltd. | Ramagundam, Telangana |
| Hindustan Urvarak & Rasayan Ltd. (HURL) | Gorakhpur, Uttar Pradesh |
| Hindustan Urvarak & Rasayan Ltd. (HURL) | Sindri, Jharkhand |
| Hindustan Urvarak & Rasayan Ltd. (HURL) | Barauni, Bihar |

Source: PIB

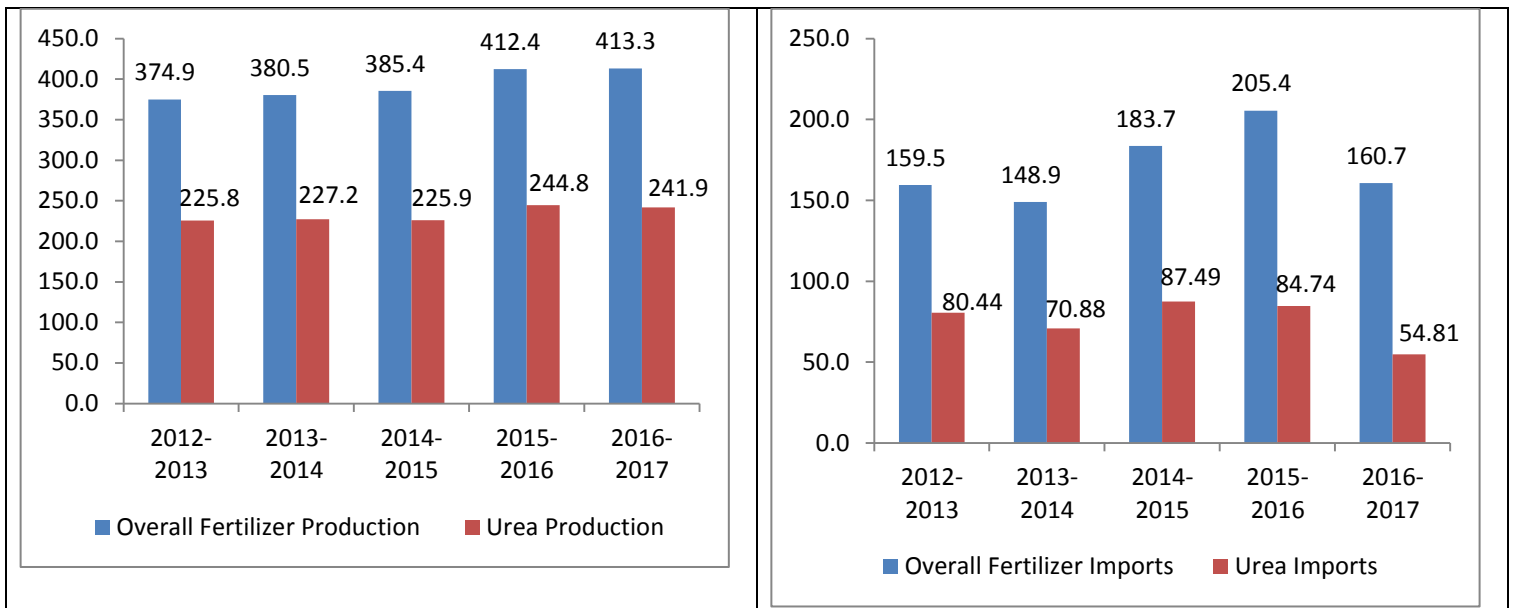
Note: Hindustan Urvarak & Rasayan Limited (HURL) was incorporated on 15th June, 2016 as a joint venture company by Coal India Limited (CIL), NTPC Limited (NTPC) and Indian Oil Corporation Limited (IOCL) as the lead promoters with Fertilizer Corporation of India Limited (FCIL) and Hindustan Fertilizer Corporation Limited (HFCL) as other two partners.

The Government has additionally, written off loans and waived interest payable by 3 PSU fertilizer companies for an amount of ₹20,532 crore. The companies benefiting are those involved in the revival of sick fertilizer units and the commissioning of new fertilizer units.

- Fertilizer Corporation of India Limited (FCIL): ₹10,643 crore
- Hindustan Fertilizer Corporation Ltd. (HFCL): ₹9,079 crore
- Brahmaputra Valley Fertilizer Corporation Limited (BVFCL): ₹ 809 crore

Production and imports matrix

Chart 1: Domestic production of fertilizers including Urea in comparison and imports (LMT)



Source: Department of Fertilizer, CMIE

- Domestic urea production is growing at a stable rate of 1.7% CAGR from FY13 to FY17. There has been a slight fall in the production by 1.2% in FY17. Urea production was the highest in FY16. The quantity of urea imported also has fallen considerably by 27% in FY17.
- Indigenous urea has constituted almost 60% of the overall fertilizer production while the share of urea imports vis-à-vis imports has been declining. Urea comprised around 50% of fertilizer imports in FY13 which has declined to 34% in FY17.
- Import dependence (imports as a proportion of production plus imports) came down from 26.3% in to 18.5% in FY17 while share of domestic production increased from 73.7% to 81.5% during this period indicating that India is moving towards self-sufficiency of urea production. *India plans to eliminate imports by 2022. Presently India mainly imports Urea from China Oman and Iran.*

Chart 3: Domestic Urea production vis-à-vis to Urea Imports (LMT)

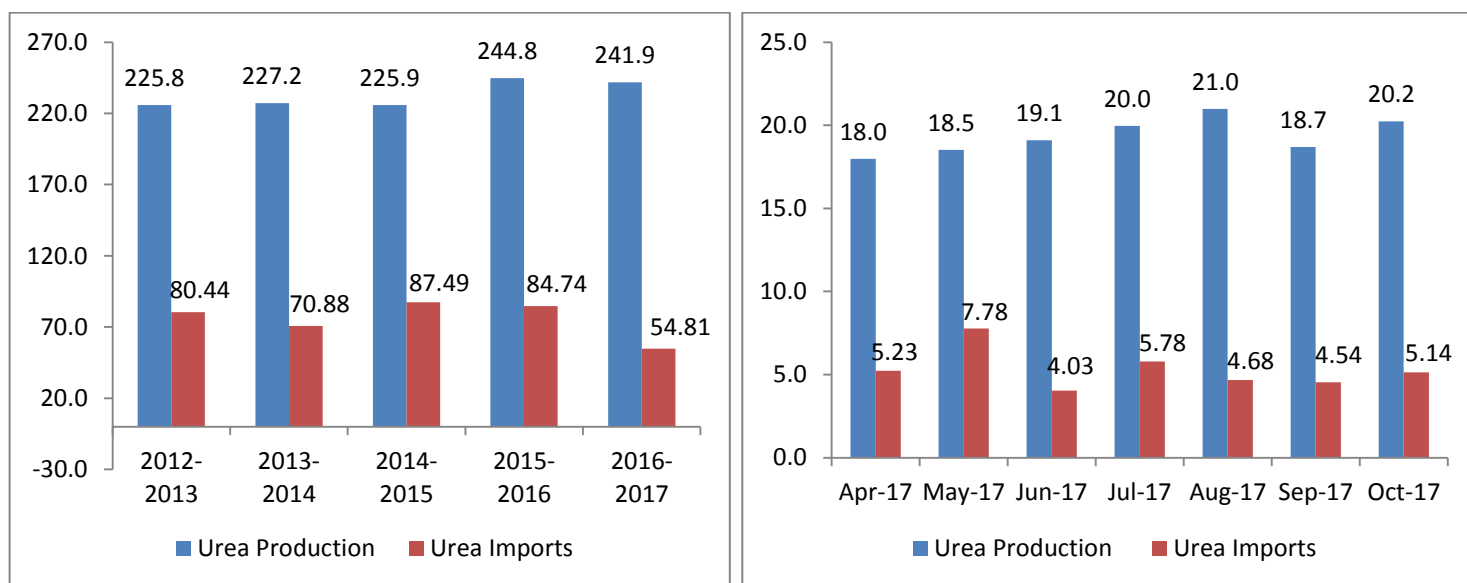


Table 2: Production and imports of Urea in FY18

| | April-Oct (FY17) | April-Oct (FY18) | % change |
|-----------------|------------------|------------------|----------|
| Urea Production | 140.4 | 135.5 | -3.5% |
| Urea Imports | 40.1 | 37.2 | -7.2% |

Source: Department of Fertilizer, CMIE

In FY18 so far production of urea has been lower compared with last year. Imports too declined but at a higher rate. This suggests a decline in consumption of urea due to better implementation of the soil health card which aims to bring the levels of soil to the ideal NPK ratio of 4:2:1. Currently the NPK ratio is 6.8:2.7:1.

Our view

We believe that there will be a pick-up in production in the latter half of the financial year due to the approach of the rabi sowing season. We also believe we are moving towards import substitution.

- In order to double the farmers’ income by 2022, the production of fertilizers will have to be increased as it would help in the productivity of land and farm produce. According to the New Urea Policy, manufacturers are incentivized to produce more than the reassessed capacity of the plant.
- We also believe that with the newer capacities of urea plants being added and old defunct ones revived, India could not only achieve its aim of eliminating urea imports but could possibly also become an exporter in the future i.e. by 2030.
- The government has been proactive by introducing new policies concerning the fertilizer industry, but there lies a challenge in government expenditure to the fertilizer industry. The Government has planned to clear the fertiliser subsidy backlog before the implementation of the direct benefit transfer (DBT) scheme next year. The large subsidy backlog is estimated at ₹35,000 crore and has been the source of much financial discontent in the industry. Payment delays impacted the working capital situation for the concerned companies which in turn affected their finance costs and profits. The challenge is to make sure the new system works before implementation of the scheme.

- The cost of natural gas increased by 17.5% (from \$2.46/mmbtu to \$2.89/mmbtu), and is expected to increase further due to the rise in the cost of crude oil. This will increase the input costs of fertilizer manufacturers and put pressure also on the government subsidy bill.

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