

Indian Fertilizer Industry December 2020 update

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Production, Imports and Sales during April-October 2020 i.e.
7M-FY21

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

	2019-20	2020-21	2019-20	2020-21	Change (y-o-y)
Overall Fertilizers Production	245	255	2.6%	4.1%	
Overall Fertilizers Imports	139	165	25.8%	18.2%	
Overall Fertilizers Sales*	337	402	16.4%	19.3%	
Urea Production	138	145	0.5%	5.0%	
Urea Imports	47	64	29.0%	36.4%	
Urea Sales	182	201	3.6%	10.5%	
DAP Production	26	23	25.2%	-10.1%	
DAP Imports	37	42	-19.3%	13.9%	
DAP Sales	62	75	7.1%	20.6%	
MOP Imports	25	28	6.8%	13.1%	
MOP Sales	18	22	-2.8%	16.5%	
SSP Production	26	31	4.0%	17.6%	

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

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

- Overall fertilizers production has increased by 4.1% during 7M-FY21 after registering a growth of 2.6% during 7M-FY20. On a monthly basis, production increased by 6.3% during October '20. 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 sales of fertilizers which has led to an increase in production. Increase in production can also be ascribed to restocking activities undertaken by the manufacturers in order to keep up with the sharp increase fertilizer sales witnessed during the year. Imports have increased sharply by 18.2% due to the sharp increase in urea imports. Import dependence (imports as a proportion of production plus imports) has fallen from being 36% to 39% during 7M-FY21.

- Production of urea increased by 5% during 7M-FY21 due to favourable weather and market conditions. Imports have risen sharply by 36.4% to supplement the increase in demand. Import dependence of urea (imports as a proportion of production plus imports) has increased to 31% during 7M-FY21 compared with being 25% during 7M-FY20.

- DAP production fell by 10.1% during 7M-FY21. Decline in production can be attributed to the shortage in raw material availability and labour constraints. Imports on the other hand have risen by 13.9% in the same period.

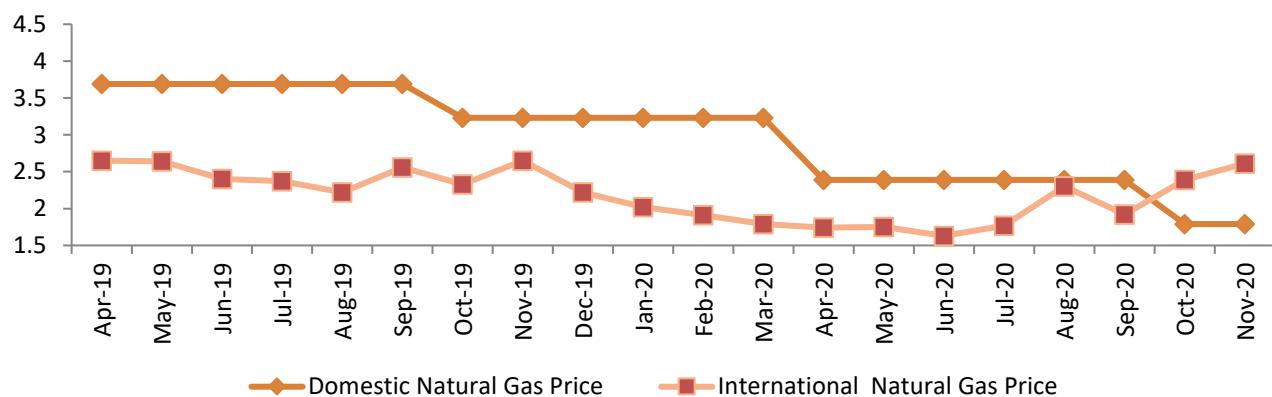
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- **MOP** imports have increased sharply by 13.1% during 7M-FY21. India meets its Potassium chloride (commonly referred to as Muriate of Potash or MOP) requirements completely through imports from Canada, Russia, CIS+ Belarus, Israel, Jordan and Lithuania.
- The production of **SSP** which is an indigenous phosphatic multi-nutrient fertilizer increased sharply by 17.6% during 7M-FY21. SSP is a cheaper alternative to DAP.
- Overall **sales** of fertilizers have increased by 19.3% during H1-FY21. Sales of urea, DAP and MOP have increased by 10.5%, 20.6% and 16.5% during 7M-FY21. Initially in the start of FY21, panic buying by farmers and dealers coupled with the low prices of the commodity had led to an increase in the 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 the momentum in sales has been sustained due to a favourable monsoon season. The country has witnessed 9% above normal rainfall which has led to an increase in the kharif sowing by 6%, higher than last year and 104% of normal Kharif season. At an all India level sowing was higher than -- Cotton (106%), Rice (102%), Oilseeds (111%) and Pulses (108%) which has augmented the demand/sales for fertilizers.

Trend in prices of key input raw materials

Natural gas is used as a 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; it is intrinsically hydrogen rich as compared to other feedstock on a unit weight basis and is easier to process.

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



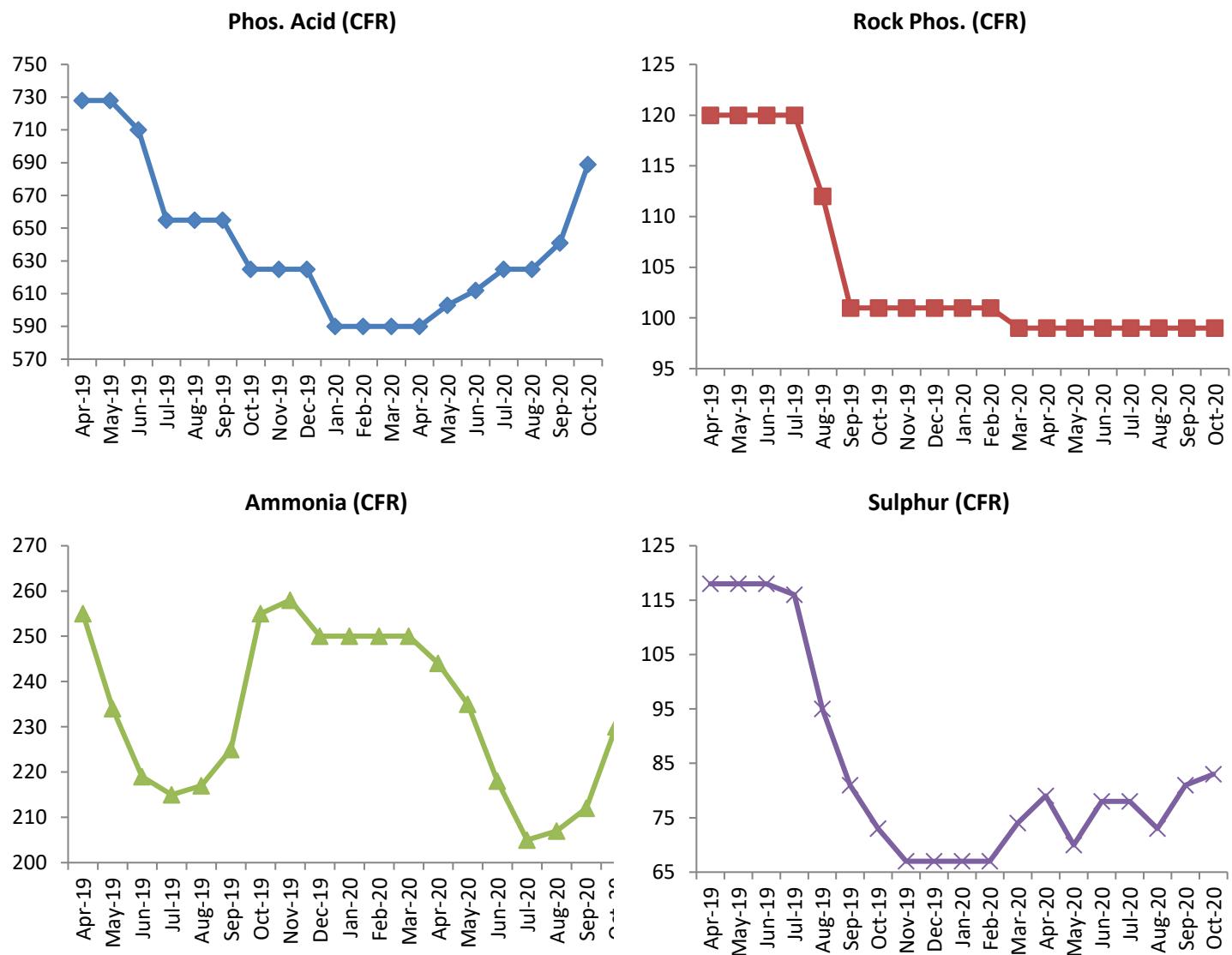
Source: PPAC and EIA

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. Currently the exchange is only dealing with delivery of imported natural gas (LNG).

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, 7.8%, 12.7%, 4.3% and 24.6% respectively on a y-o-y during 7M-FY21. With the opening up and pickup in the economy, the prices of other raw materials have also been seeing a gradual uptrend.

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 99.77% (upto October 2020) of physical progress. Presently the project is in pre-commissioning/commissioning stage.
- Gorakhpur, Sindri, Barauni fertilizer plants have achieved 83.8%, 79% and 77.9% of progress respectively (upto October 2020).
- Overall project progress for the Talcher Fertilizer Plant in Odisha is around 7.14%.

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 to 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 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)	2019-2020 (P)	2020-2021 (BE)	Change y-o-y (+/-)
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 is 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 by 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 October 2020	% of Actuals to Budget	Estimates
Urea Subsidy	47,805	48,011	100%	
Nutrient Based Fertilizers Subsidy	23,504	12,795	54%	
Total	71,309	60,806		85%

Source: Controller General of Accounts

In the new financial year, FY21 the government has already paid 85% of the budgeted subsidy amount upto October 2020. The government has been more aggressive in disbursing the urea subsidy as compared to the NBS as urea players are suffering from a higher and huge backlog. In the corresponding period of the previous financial year the government had disbursed 86% of the urea subsidy and 79% of the NBS.

With respect to the insufficient subsidy allocation mentioned earlier, in November 2020, the Finance Minister announced a Rs. 65,000-crore fertilizer subsidy for farmers as part of her stimulus package (Atmanirbhar III) to boost the economy. The allocated amount is being provided to ensure adequate availability of fertilisers to farmers and to enable timely accessibility of fertilisers in the upcoming crop season.

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. Agriculture has been a bright spot and has grown backed by a bumper Rabi harvest and good monsoon during the Kharif season. 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 19.3% during H1-FY21 and going forward with the increase in liquidity of farmers and good moisture level in the soil we expect a very good Rabi season. Keeping this in mind, the demand for fertilizers for the rest of FY21 seems sanguine.

- The rural economy continues to be a bright spot with two consecutive years of above normal rainfall. Further the government has announced an increase of MSP upfront on the Rabi crops with its objective to provide minimum 50% returns on the cost of production to farmers.

- 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% during FY21. Overall fertilizer production had increased by 2.7% during FY20 and has increased by 4.1% during 7M-FY21.

- We expect production to increase in the coming months on the back of restocking activities undertaken by fertilizer manufacturers. Low raw material prices too will aid in spurring production.
- Currently the liquidity situation of manufacturers seems to have improved. Fall in input costs has improved the working capital situation of manufacturers.
 - o Urea manufacturers are to immensely benefit with the current low gas prices. Domestic gas prices have furthered fallen during the second revision.
 - 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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