

INDIAN FERTILISER INDUSTRY

**Depleting fertiliser stocks a clarion
call for GoI to raise subsidy for
non-urea fertilisers**

SEPTEMBER 2021





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Systemic inventory for phosphatic fertilisers has moderated sharply driven by low imports amid elevated international prices and inadequate subsidy for phosphatic fertilisers. ICRA expects GoI to revise the subsidy rates in the near term to improve availability for the upcoming rabi season.



- Systemic inventory of phosphatic fertilisers in Indian markets has dipped sharply amid elevated international prices and limited availability in the international markets, leading to a decline in imports which is a cause of worry for the upcoming rabi season



- Retail sales remained healthy albeit lower than 5M FY2021 mainly due to panic buying in the last kharif season driven by the uncertainty created by the Covid-19 pandemic



- India started FY2022 with lower systemic inventory levels, which coupled with lower production and imports has led to depletion of stocks amid healthy demand driven by nearly stable sowing levels



- Production levels have been impacted in April 2021 as companies awaited the declaration of subsidy rates amid elevated input prices as well as rising international prices



- As per ICRA estimates, with prevailing retail price and subsidy levels, the industry is facing significant losses on the sale of phosphatic fertilisers



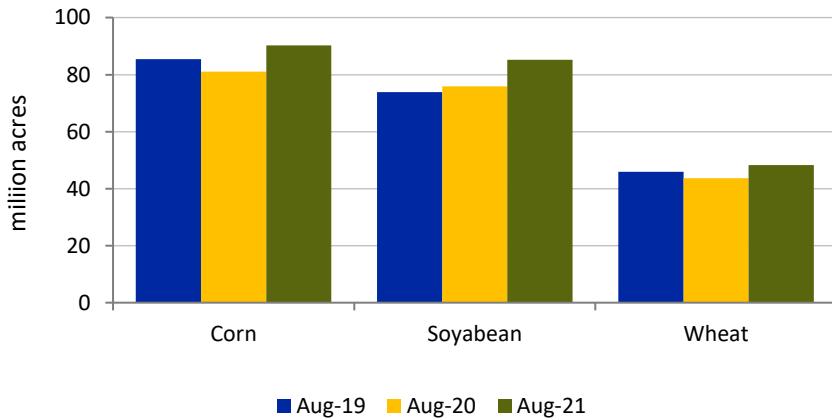
- ICRA expects GoI to raise the subsidy rates under the Nutrient Based Subsidy (NBS) on an urgent basis to support domestic manufacturing even as availability of imported material remains scarce.



- While the urea segment is expected to witness stable profitability in the near to medium term, the phosphatic fertiliser segment is witnessing significant headwinds currently, which could be alleviated with a revision in the subsidy rates by the GoI over the course of the next one month.

Agri economies across the globe remain buoyant amid strong crop prices

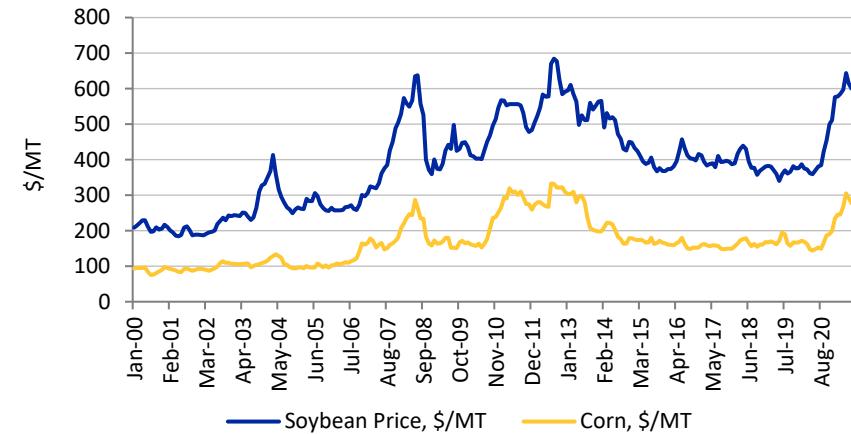
Exhibit: Trend in plantation acreage for major crops on the US



Source: USDA NASS, ICRA research

- Globally focus on agriculture rose during Covid-19 to ensure food security.
- China's surging demand for soybean and corn from the pig farming sector has led to sharp uptick in prices.
- The US as well as Brazil have witnessed strong uptick in plantation acreages under soybean and corn which are some of the most fertiliser-intensive crops amid strong upsurge in crop prices.

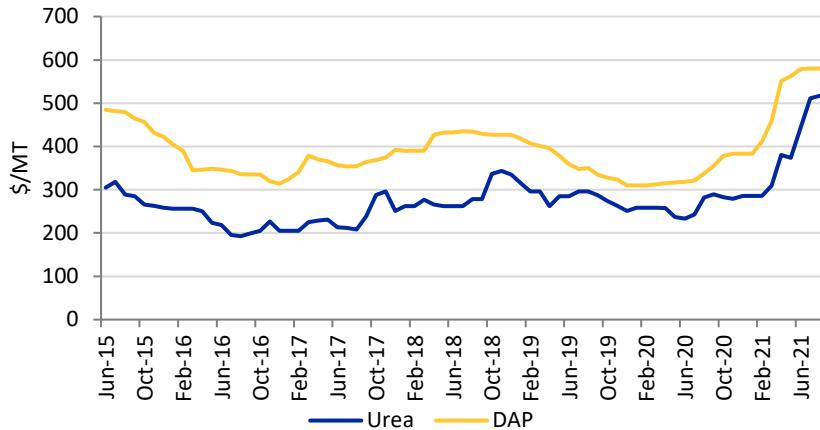
Exhibit: Trend in price of soybean and corn in the US



Source: Indexmundi.com, DoF, ICRA research

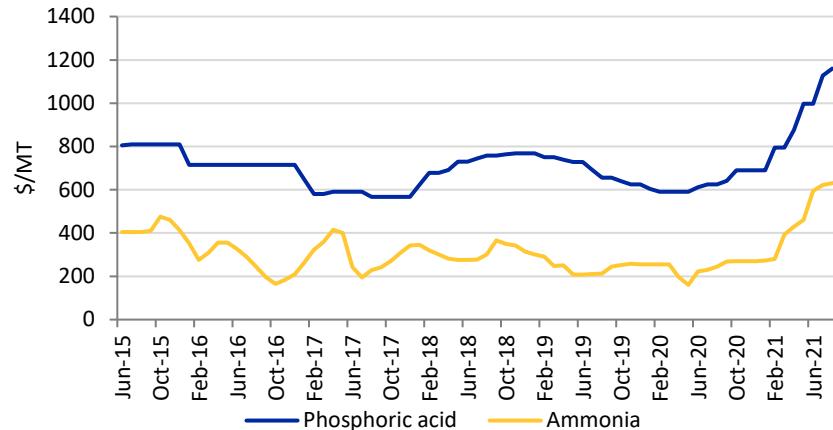
Strong demand amid limited supplies causing fertiliser prices to firm up

Exhibit: Trend in finished fertiliser prices in international markets



Source: Urvarak.nic.in, DoF, ICRA research

Exhibit: Trend in price of key inputs for phosphatic fertilisers



Source: Urvarak.nic.in, DoF, ICRA research

- DAP and urea prices have continued to surge in Q2 FY2022 as well, driven by continued strong demand from the US, Chinese and Brazilian markets
- Phosphatic fertiliser prices have been rising due to strong demand amid limited supplies while urea prices have risen due to rising energy prices
- Rise in ammonia prices due to supply disruption and rising energy prices have led to increase in the raw material prices with phosphoric acid prices also on an uptrend since the beginning of CY2021

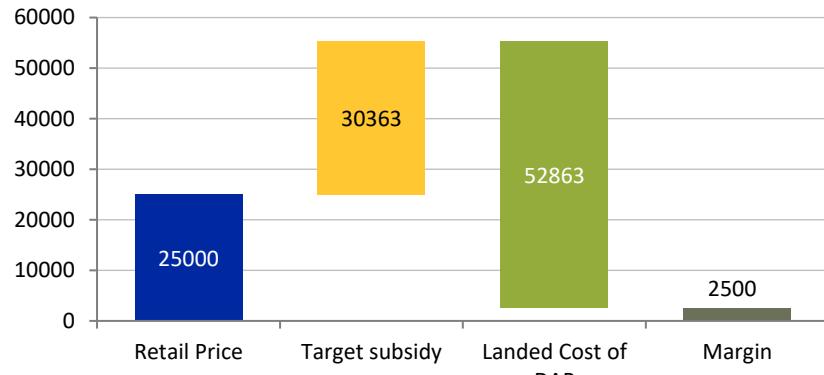
Elevated international prices indicate urgent need to raise subsidy

Exhibit: DAP sales currently burning a hole in industry's pocket



Source: Urvarak.nic.in, DoF, ICRA research

Exhibit: GoI needs to raise the subsidy by Rs. 5000 to 6000/MT for DAP for stable profitability



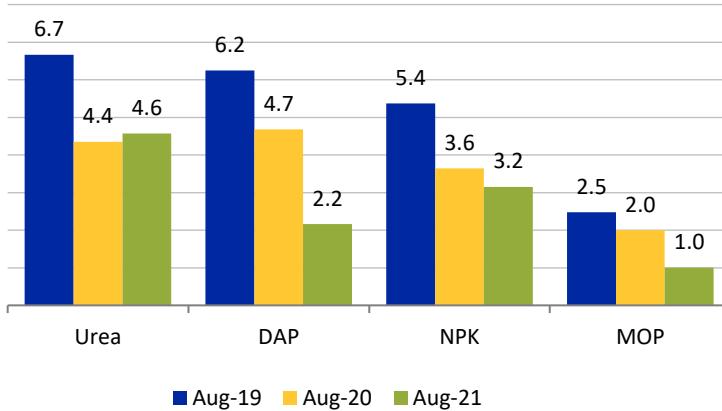
Source: Urvarak.nic.in, DoF, ICRA research; Note: ICRA expects the current excess cost is to be covered partly by increase in retail price and subsidy increase by the GoI

- The GoI had raised the subsidy under the NBS scheme in May 2021 resulting in a 140% rise in subsidy on DAP in light of rising international prices
- However, international prices have risen further since then making the subsidy increase inadequate
- Ammonia and potash prices have also risen significantly since May 2021 which has made it necessary to raise the subsidy component for Nitrogen (N) and Potassium (K)
- ICRA expects the GoI to raise subsidy rates over the course of next one month to ensure adequate availability for the rabi season as international prices are expected to remain firm

Availability of fertilisers in India a concern as both import and production falter

Exhibit: Availability of phosphatic fertilisers dips sharply

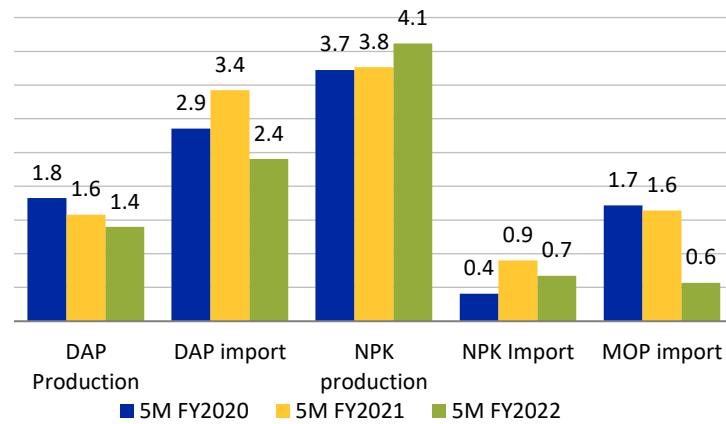
MMT



Source: Urvarak.nic.in, DoF, ICRA research

Exhibit: Production and imports falter as international prices remain elevated

MMT

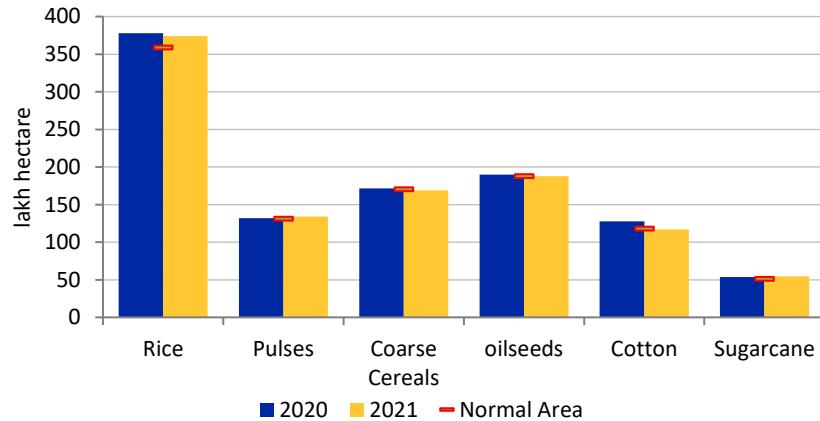


Source: Urvarak.nic.in, DoF, ICRA research

- Availability of phosphatic fertilisers, particularly DAP and MOP, has dipped sharply owing to the decline in imports
- Phosphatic manufacturers have shifted production primarily to NPK grades amid elevated input prices i.e. phosphoric acid and ammonia
- DAP imports have also fallen sharply due to continued uptrend in the prices in the international market due to which the sale of DAP has become loss-making despite the last subsidy revision
- Availability of fertiliser has become a major concern for the upcoming rabi season as systemic inventory levels are significantly below the historical levels which is partially due to strong offtake during FY2021, which led to depletion of fertiliser stocks in the country

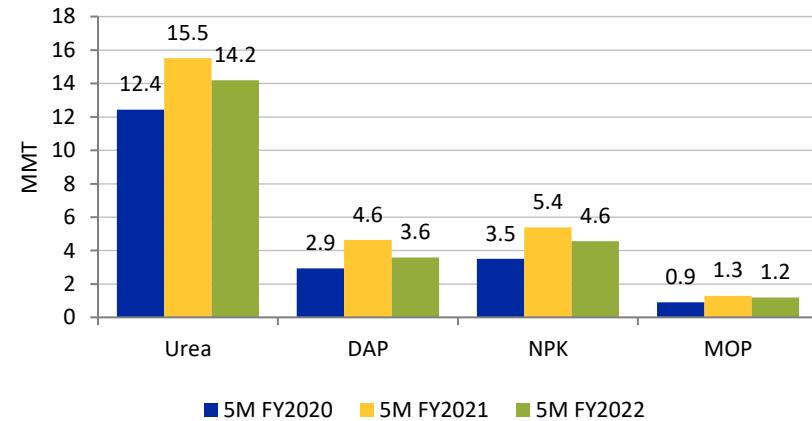
Retail sales remain healthy as sowing levels witness marginal decline

Exhibit: Kharif sowing levels marginally lower than FY2021



Source: Urvarak.nic.in, DoF, ICRA research

Exhibit: Retail sales remain healthy albeit lower than FY2021 levels



Source: Urvarak.nic.in, DoF, ICRA research

- Sowing levels for various crops are below 2020 kharif season levels although the same are near normal area (as defined by DACFW) for most of the crops
- Farmers had resorted to panic buying in kharif season of FY2021 owing to the uncertainty created by the Covid-19 pandemic, which led to record growth in retail sales in the last kharif season
- Retail sales of fertilisers in 5M FY2022 have moderated vis-à-vis 5M FY2021 levels although these have witnessed healthy growth over 5M FY2020 which can be considered a period of normal purchasing



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