

# INDIAN FERTILISER INDUSTRY

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**Subsidy revision alleviates stress on  
fertiliser industry's profitability**

**May 2022**





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*Gol has raised the subsidy under the Nutrient-Based Subsidy (NBS) scheme in April 2022 to ensure availability of fertiliser for farmers and keep the production for the industry remunerative*



- Rising natural gas prices in Europe have resulted in a temporary shutdown of urea capacities which will keep the supplies tight in the global markets



- Phosphoric acid prices continue to rise amid rising sulphur and sulphuric acid prices. Ammonia prices reach record highs amid rising natural gas prices globally



- With the sharp increase in NBS rates, the Gol has allocated a subsidy of Rs. 60,939 crore for the kharif season against a Rs. 42,000-crore budgetary allocation for FY2023



- ICRA expects the subsidy allocation for the P&K sector to remain adequate for the upcoming kharif season which will keep the credit profile of the P&K players stable



- Urea players to face higher working capital requirement amid the increase in subsidy although increase in energy savings will offset the impact of increased interest costs; production beyond re-assessed capacity to remain protected due to elevated international prices



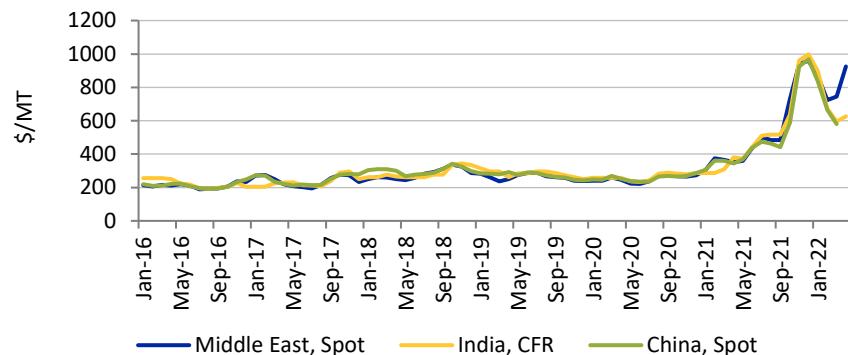
- With elevated natural gas prices, ICRA expects the subsidy budget for the urea segment to remain inadequate although ICRA expects the Gol to make additional allocations towards the same in H2 FY2023 in case the natural gas prices do not soften



- ICRA's outlook on the sector remains Stable amid continued government support

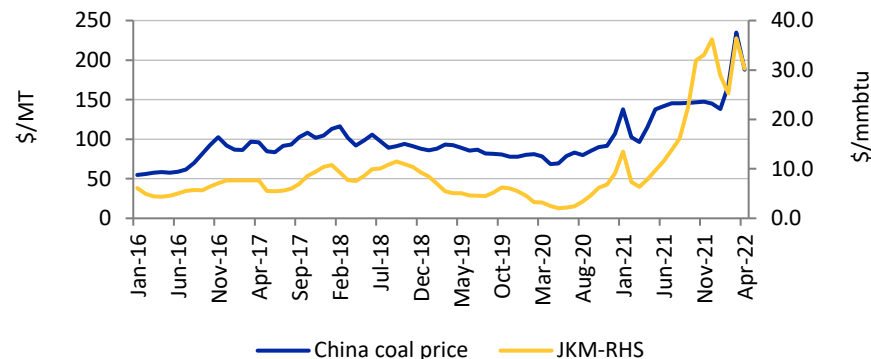
# Geopolitical tensions push urea prices up again as energy prices spike

Exhibit: Trend in international urea prices



Source: Bloomberg, ICRA Research

Exhibit: Trend in global energy prices

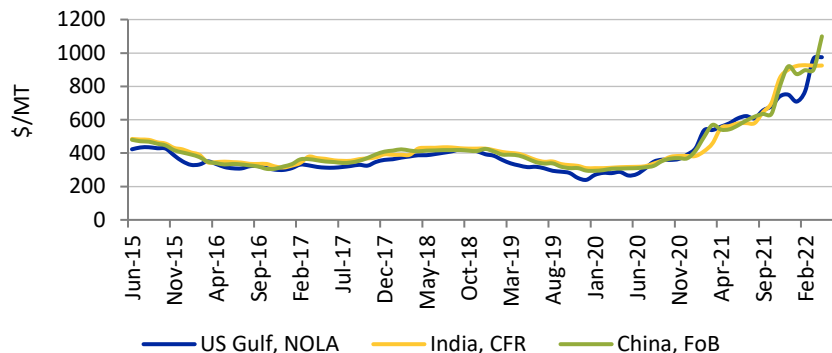


Source: Bloomberg, ICRA Research

- Urea prices moderated in early part of Q4 FY2022 with only the Indian import tenders available to absorb supplies as other major agri-economies had their agricultural off-season
- India imported a significant quantity in December 2021 and February 2022 with prices moderating sequentially month-on-month to around \$596/MT in February 2022 for Indian imports
- Urea prices are expected to remain elevated in the range of \$800-900/MT given the higher prices of both coal and natural gas amid the geopolitical tensions between Ukraine and Russia
- Rising natural gas prices in Europe have resulted in a temporary shutdown of urea capacities which will keep the supplies tight in the global markets

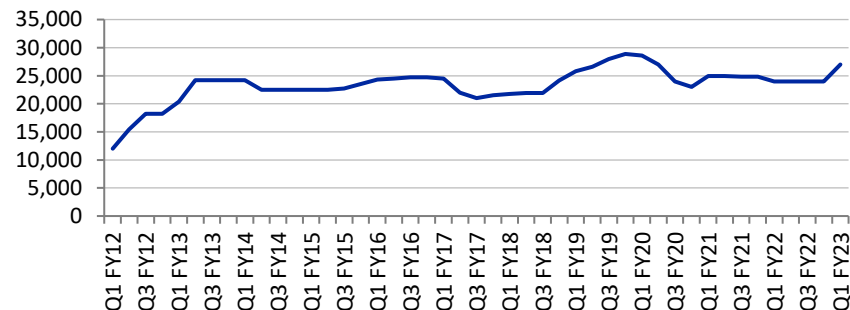
# DAP prices scale new heights amid rising raw material prices

Exhibit: Trend in international DAP prices



Source: DoF, ICRA Research

Exhibit: Trend in retail price of DAP in India

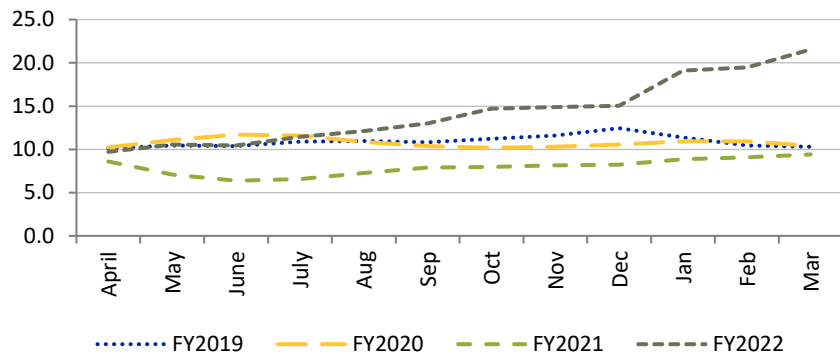


Source: DoF, ICRA Research

- Strong crop prices, constrained supplies and rising raw material prices have kept phosphatic fertiliser prices elevated with prices reaching decadal highs
- Phosphoric acid prices continue to rise amid rising sulphur and sulphuric acid prices while ammonia prices reach record highs amid rising natural gas prices globally
- Retail price has risen to Rs. 27,000/MT for DAP amid rising input prices albeit the retail price hike remains inadequate to cover the input costs
- Subsidy increase by the GoI in April 2022 to keep the profitability on the sale of DAP and NPK stable for the industry; DAP imported at prices higher than \$925/MT may force the industry to raise retail prices in case the subsidy isn't increased further

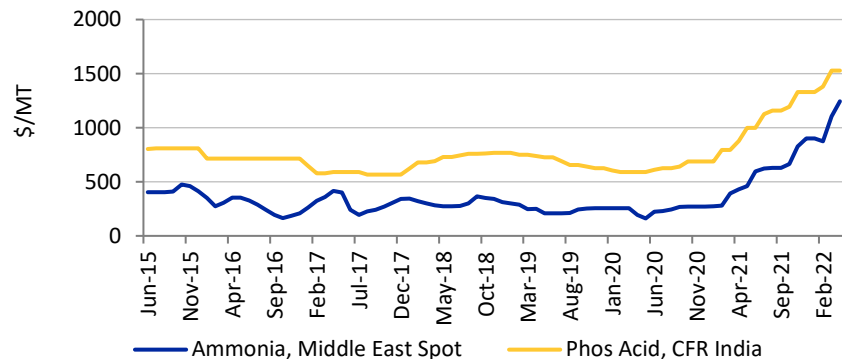
# Input price rise unrelenting amid strong demand and energy price pressures

Exhibit: Trend in pool gas price



Source: Bloomberg, ICRA Research

Exhibit: Trend in phosphoric acid and ammonia price

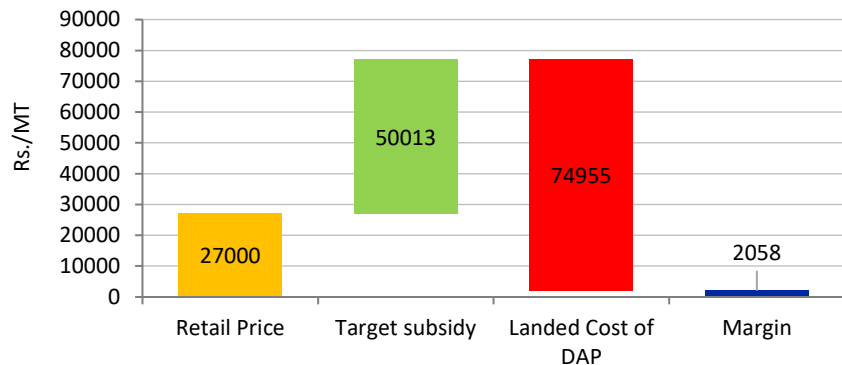


Source: Bloomberg, ICRA research

- Pooled price is on an uptrend, driven by rising share of LNG with Asian spot LNG prices rising to as high as \$42/mmbtu while term LNG prices rising due to higher Brent crude price
- Urea players to face higher working capital requirement amid increase in subsidy portion, although increase in energy savings will offset the impact of increased interest costs; production beyond re-assessed capacity to remain protected owing to elevated international prices
- Phosphoric acid prices remain elevated amid strong demand for phosphatic fertilisers globally and rise in sulphur prices; ammonia prices reach record highs amid rise in natural gas prices

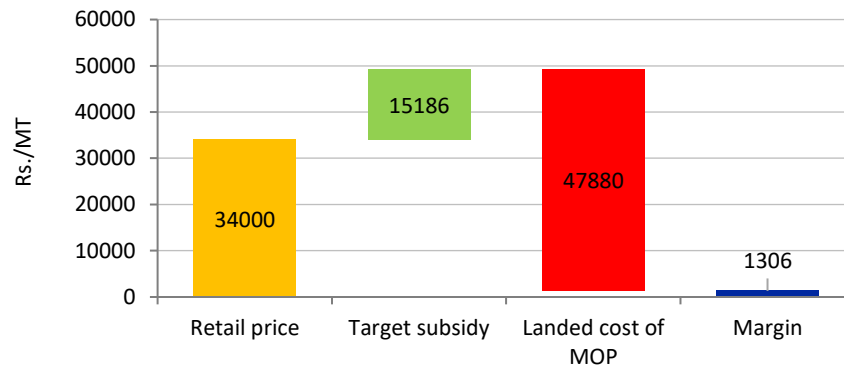
# Subsidy and retail price to keep DAP and MOP margins stable

Exhibit: Current level of subsidy and retail price to keep DAP margins stable



Source: DoF, ICRA Research

Exhibit: Retail price of MOP to rise sharply amid lower than expected subsidy increase



Source DoF, ICRA Research

- With the steep rise in key input prices, the profitability on the sale of DAP and NPK fertilisers had come under pressure as subsidy and retail prices were inadequate to cover the input costs
- GoI has raised the subsidy under the Nutrient-Based Subsidy (NBS) scheme in April 2022 to ensure the availability of fertiliser for farmers and keep the production for the industry remunerative
- The retail price of MOP is expected to remain around Rs. 34,000/MT given the elevated global prices; ICRA expects demand for MOP to face headwinds on account of a steep rise in retail price
- While the current level of subsidy under the NBS scheme remains adequate, any further rise in the input costs and/or global fertiliser prices may require revision in the subsidy and/or retail prices further

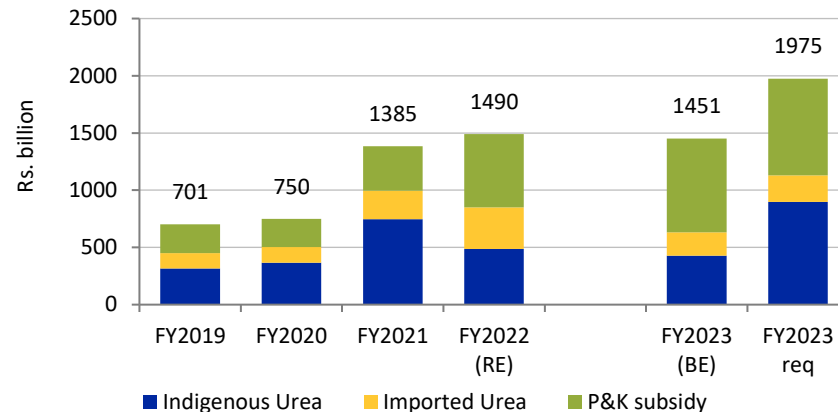
# Subsidy allocation for P&K segment adequate; urea may face shortfall in absence of additional allocation

**Exhibit: Sharp rise in NBS rates expected for FY2023**

Rs./MT	FY18	FY19	FY20	FY21	21-Apr	May-21 to Sep-21	Oct-21 onwards*	FY23	%age Increase
N	18,989	18,901	18,901	18,789	18,789	18,789	18,789	91,960	389%
P	11,997	15,216	15,216	14,888	14,888	45,323	45,323	72,740	60%
K	12,395	11,124	11,124	10,116	10,116	10,116	10,116	25,310	150%
S	2,240	2,722	3,562	2,374	2,374	2,374	2,374	6,940	192%
<b>Product Subsidy</b>									
DAP (18:46:0)	8,937	10,402	10,402	10,231	10,231	24,231	32,991	50,013	52%
NPK 20:20:0:13	6,488	7,177	7,286	7,044	7,044	15,154	17,154	33,842	97%
10:26:26	8,241	8,739	8,739	8,380	8,380	16,293	18,293	34,689	90%
12:32:16	8,101	8,917	8,917	8,637	8,637	18,377	20,377	38,362	88%
MOP	7,437	6,674	6,674	6,070	6,070	6,070	6,070	15,186	150%
SSP	3,034	2,887	2,887	2,766	2,766	7,513	7,513	7,513	0%

Source: DoF, ICRA Research; \*NBS rates were kept unchanged although additional Rs. 438/50 kg bag of DAP and Rs. 2000/MT for NPK fertilisers was provided by GoI

**Exhibit: Subsidy requirement to rise to north of Rs. 2.0 lakh crore**



Source: DoF, ICRA Research

- With the sharp increase in NBS rates, the GoI has allocated a subsidy of Rs. 60,939 crore for the kharif season against a Rs. 42,000-crore budgetary allocation for FY2023
- ICRA expects the subsidy allocation for the P&K sector to remain adequate for the upcoming kharif season which will keep the credit profile of the P&K players stable
- With elevated natural gas prices, ICRA expects the subsidy budget for the urea segment to remain inadequate although ICRA expects the GoI to make additional allocations towards the same in H2 FY2023 in case the natural gas prices do not soften
- ICRA's outlook on the sector remains Stable amid continued government support



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