

# INDIAN FERTILISER INDUSTRY

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**NBS rates revised amid softening of  
input prices**

**NOVEMBER 2022**





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*The subsidy announced by the Government of India (GoI) under the Nutrient-based Subsidy (NBS) scheme for the rabi season has been revised, given the softening in the input prices and finished fertiliser prices. The industry was facing input price headwinds and constrained availability in the international markets, owing to strong global demand and geo-political issues. With this additional allocation, the total subsidy for P&K fertilisers for FY2023 stands at Rs. 1,12,814 crore against original budgetary allocation of Rs. 42,000 crore.*



- Input prices for both urea and phosphatic fertilisers, along with finished fertiliser prices reached record highs in global markets, and NBS rates followed the trend to ensure availability of fertilisers to farmers at affordable prices.



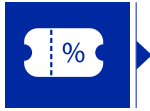
- The elevated prices were on account of rise in natural gas prices as well as supply disruptions, owing to the geo-political issues.



- However, the prices have started to ease now with moderation in global demand at such elevated prices, and correspondingly, the NBS rates have also been revised to match this trend.



- With moderation in NBS rates, the total subsidy for P&K fertilisers in FY2023 stands at Rs. 1,12,814 crore against original budgetary allocation of Rs. 42,000 crore.



- ICRA expects subsidy allocation for the P&K sector to remain adequate for the upcoming rabi season, given the softening in the input prices and finished fertiliser prices. At these levels, majority of the fertilisers will generate healthy contribution margins, except MOP.



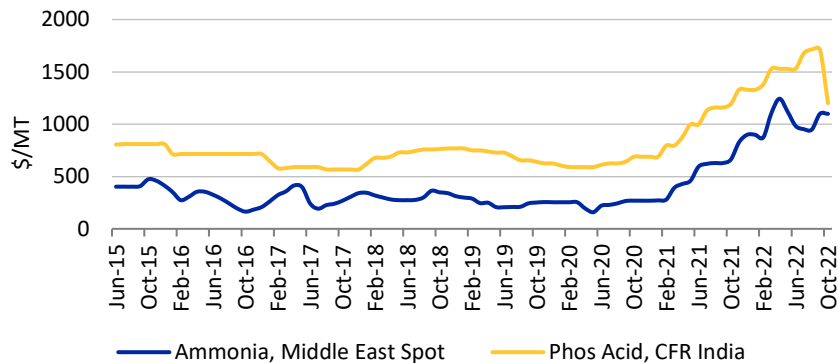
- Pool price is on an uptrend, driven by an increase in domestic gas prices as well as Brent crude price-linked term LNG.



- While there have been some delays in releasing the subsidy by the Government in this fiscal, the Government continues to support the sector and, thus, ICRA's outlook on the sector remains Stable.

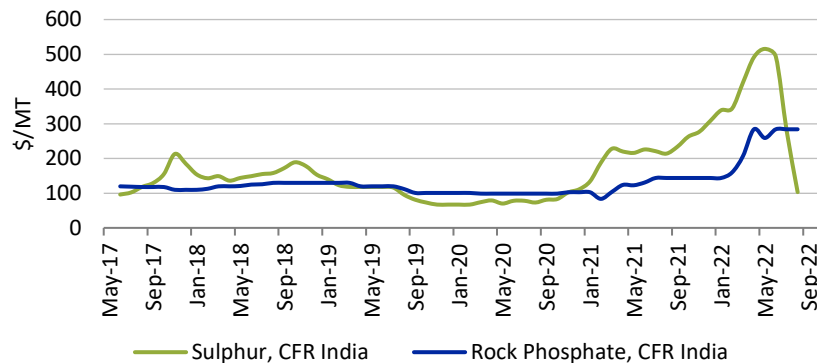
# Geo-political issues and firm input prices keep phosphatic fertiliser prices elevated; some moderation witnessed in the recent past

Exhibit: Trend in price of phosphoric acid and ammonia



Source: DoF, ICRA Research

Exhibit: Trend in price of sulphur and rock phosphate

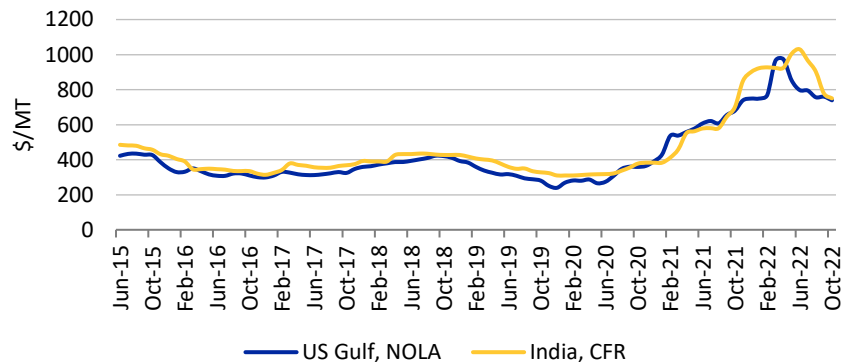


Source: DoF, ICRA Research

- Phosphoric acid prices have declined sharply to \$1200/MT in October 2022 from \$1,715/MT in September 2022.
- Ammonia prices have witnessed some softening, although they continue to be elevated, amid high natural gas prices. Further, with some capacities shutting down in Europe amid high energy prices, and approaching winters, the ammonia prices are expected to remain elevated.
- Sulphur prices, which witnessed significant uptick in line with the increase in crude oil prices, have now witnessed a sharp decline.
- Rock phosphate prices have been stable since May 2022 after witnessing a sharp uptick in the previous months.

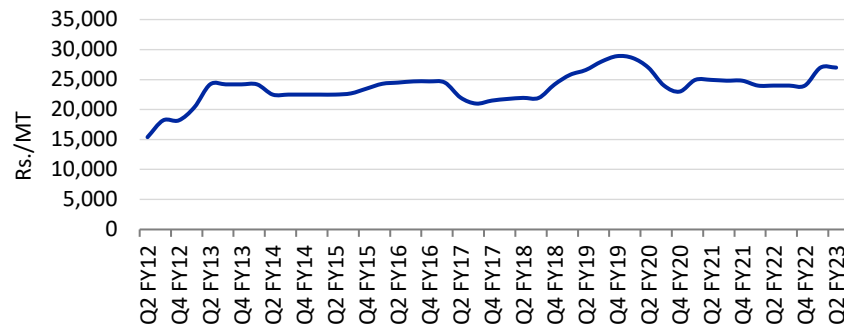
# DAP prices remain elevated amid high raw material prices, despite moderation

Exhibit: Trend in international DAP prices



Source: DoF, ICRA Research

Exhibit: Trend in retail price of DAP in India

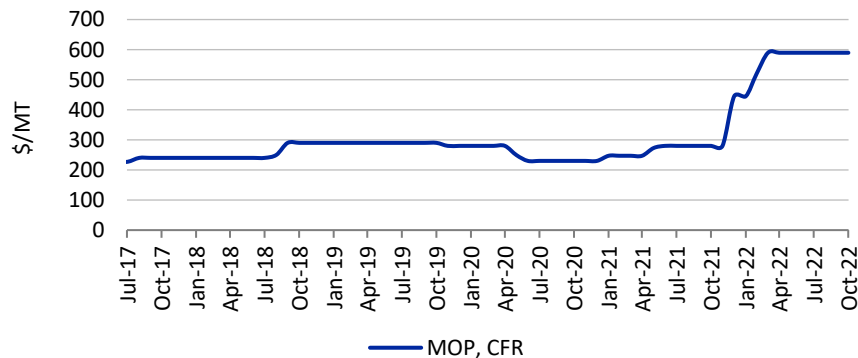


Source: DoF, ICRA Research

- Strong crop prices, constrained supplies and rising raw material prices have kept phosphatic fertiliser prices elevated, with prices reaching decadal highs.
- Despite some moderation in the recent past owing to demand pressures, international DAP prices remain elevated.
- DAP retail prices in India have remained at Rs. 27,000/MT, which amid rising input prices had exerted pressure on the profitability of DAP manufacturers. But now there has been significant improvement in the contribution margins of DAP with the easing of the international prices.

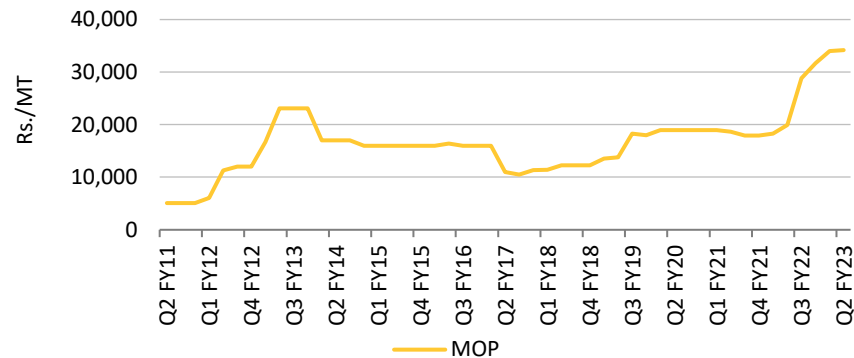
# Geopolitical issues in Russia and Belarus push MOP prices to multi-year highs

Exhibit: Trend in MOP prices in India, CFR



Source: DoF, ICRA Research

Exhibit: Trend in retail price of MOP in India

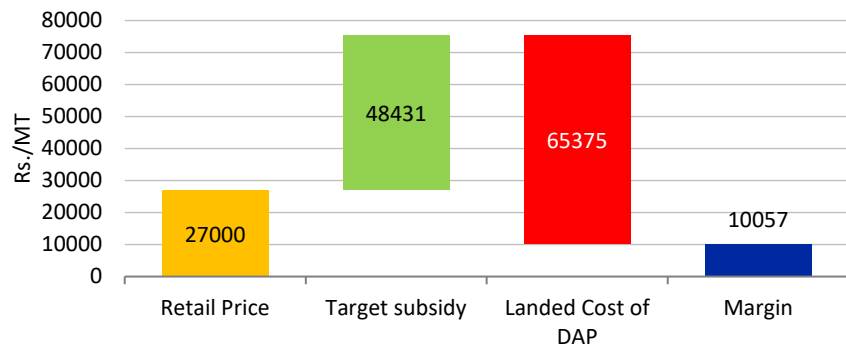


Source: DoF, ICRA Research

- MOP demand remains healthy globally due to the healthy agri season.
- Supply shortages and geopolitical situations in Belarus and Russia have resulted in consistently elevated prices of MOP, as these regions contribute more than 30% of global supply.
- India's potash prices have risen to around \$590/MT, nearly 111% up from the previous contract supplies.
- Retail prices have also risen from December 2021 onwards.
- MOP prices are expected to remain elevated unless supplies return to markets from Russia and Belarus.

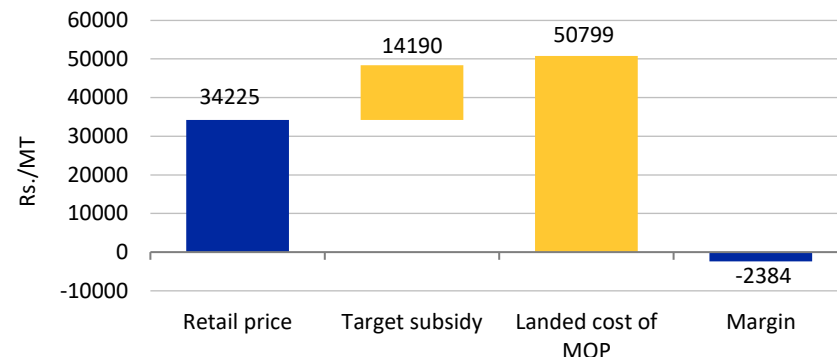
# Subsidy and retail price to keep DAP margins healthy and MOP margins negative

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



Source: DoF, ICRA Research  
1\$= Rs. 82; DAP= \$760

Exhibit: Retail price of MOP and current level of subsidy to be inadequate to cover the input cost

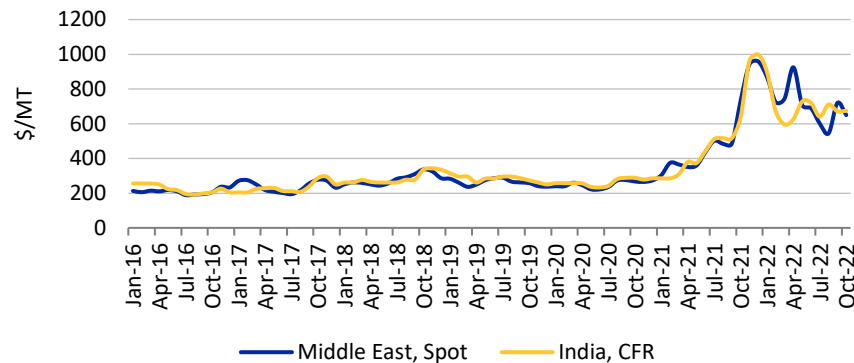


Source DoF, ICRA Research  
1\$= Rs. 82; MOP= \$590 (Last imported price for India)

- GoI has reduced the subsidy under the Nutrient-based Subsidy (NBS) scheme in November 2022, given the softening in input prices
- With steady decline in key input prices, the profitability on sale of DAP and NPK fertilisers has improved, even as subsidy levels have been moderated marginally.
- Retail price of MOP and the current level of subsidy will be inadequate to cover the high import prices, which have remained elevated owing to the geo-political issues in Russia and Belarus. Indian imports of MOP have remained low given the elevated international prices.
- The current level of subsidy under the NBS scheme remains adequate at the existing prices (except MOP) and if the trend of softening continues, the phosphatic fertiliser players are expected to generate healthy profitability in H2 FY2023.

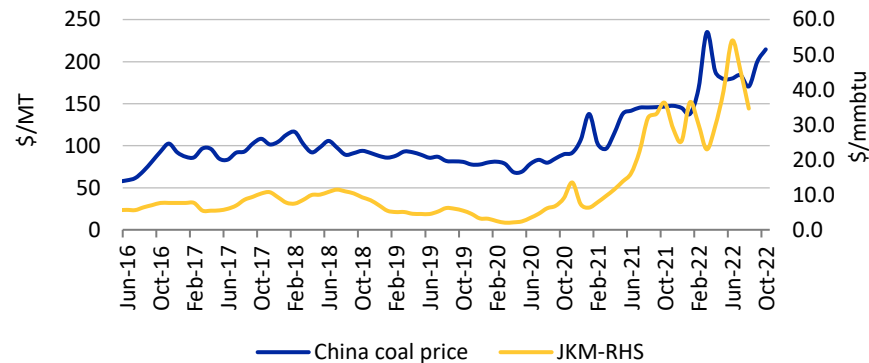
# Urea prices remain elevated amid high energy prices, despite decline from peak

Exhibit: Trend in international urea prices



Source: Bloomberg, ICRA Research

Exhibit: Trend in global energy prices

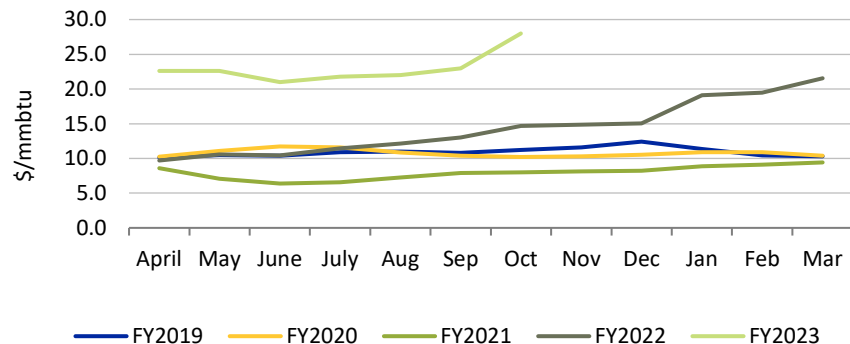


Source: Bloomberg, ICRA Research

- The urea prices, after peaking, have moderated amid lukewarm demand at such elevated prices.
- Rising natural gas prices in Europe resulted in a temporary shutdown of ammonia and urea capacities, which will keep the supplies tight in the global markets.
- Although urea prices have slipped from their peaks, the energy price uncertainty continues amid geo-political tensions between Ukraine and Russia. Further, the situation around energy prices is likely to exacerbate in winters, keeping urea prices at elevated levels.

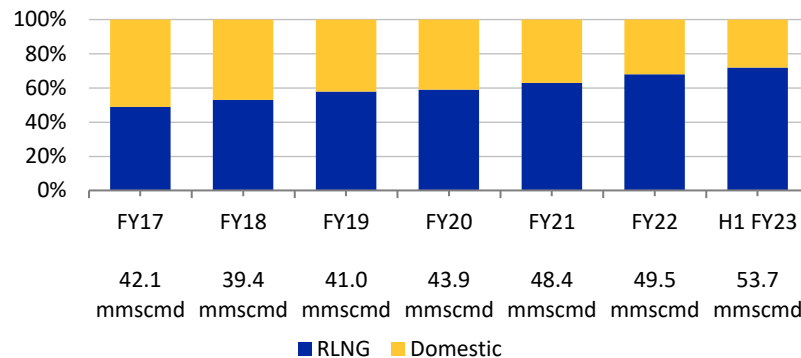
# Pooled price for urea to remain firm with rising share of LNG in consumption mix

Exhibit: Trend in pool gas price



Source: Bloomberg, ICRA Research

Exhibit: Trend in gas consumption mix for fertiliser sector



Source: Bloomberg, ICRA research

- Lower domestic gas production and increasing share of LNG in consumption mix of fertiliser sector have resulted in high pooled gas price for the sector, which is around \$27-28/mmbtu.
- Production ramp-up as well as commissioning of new urea capacities dependent on imported LNG will push the share of LNG to more than 70% for FY2023.
- As gas cost is a pass-through for urea players, higher gas costs lead to higher energy savings for energy efficient plants, albeit at higher working capital requirements and higher subsidy requirement from the GoI.
- The high gas costs also impact the profitability for IPP-benchmarked production.



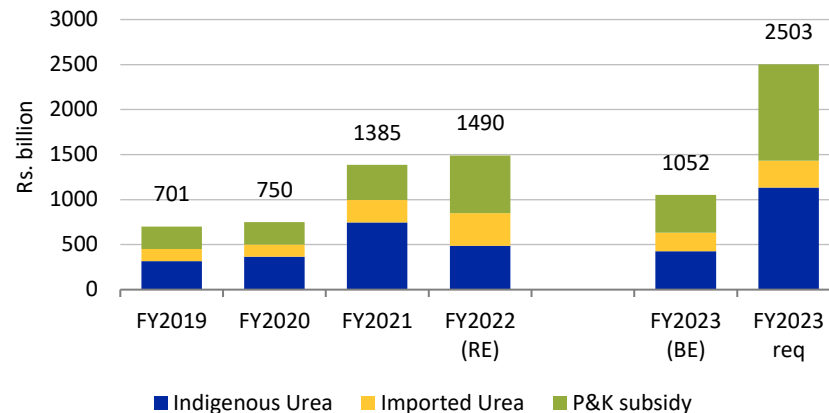
# Subsidy allocation may face shortfall amid elevated raw material and gas prices

Exhibit: Moderation in NBS rates

| Rs./MT                 | FY19   | FY20   | FY21   | May-21 to Sep-21 | Oct-21 onwards* | H1 FY23 | H2 FY23 |
|------------------------|--------|--------|--------|------------------|-----------------|---------|---------|
| N                      | 18,901 | 18,901 | 18,789 | 18,789           | 18,789          | 91,960  | 98,020  |
| P                      | 15,216 | 15,216 | 14,888 | 45,323           | 45,323          | 72,740  | 66,930  |
| K                      | 11,124 | 11,124 | 10,116 | 10,116           | 10,116          | 25,310  | 23,650  |
| S                      | 2,722  | 3,562  | 2,374  | 2,374            | 2,374           | 6,940   | 6,120   |
| <b>Product Subsidy</b> |        |        |        |                  |                 |         |         |
| DAP (18:46:0)          | 10,402 | 10,402 | 10,231 | 24,231           | 32,991          | 50,103  | 48,431  |
| NPK 20:20:0:13         | 7,177  | 7,286  | 7,044  | 15,154           | 17,154          | 33,842  | 33,786  |
| 10:26:26               | 8,739  | 8,739  | 8,380  | 16,293           | 18,293          | 34,690  | 33,353  |
| 12:32:16               | 8,917  | 8,917  | 8,637  | 18,377           | 20,377          | 38,362  | 36,964  |
| MOP                    | 6,674  | 6,674  | 6,070  | 6,070            | 6,070           | 15,186  | 14,190  |
| SSP                    | 2,887  | 2,887  | 2,766  | 7,513            | 7,513           | 12,402  | 12,402  |

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 around Rs. 2.5 lakh crore



Source: DoF, ICRA Research

- With some moderation in NBS rates, the total subsidy for P&K fertilisers in FY2023 stands at Rs. 1,12,814 crore against original budgetary allocation of Rs. 42,000 crore.
- ICRA expects subsidy allocation for the P&K sector to remain adequate for the upcoming rabi season, given the softening in the input prices and finished fertiliser prices
- For the sector as a whole, ICRA expects the subsidy bill for FY2023 to be around Rs. 2.5 lakh crore against initial budgetary allocation of Rs. 1.05 lakh crore, as urea subsidy also remains elevated owing to high gas prices.



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