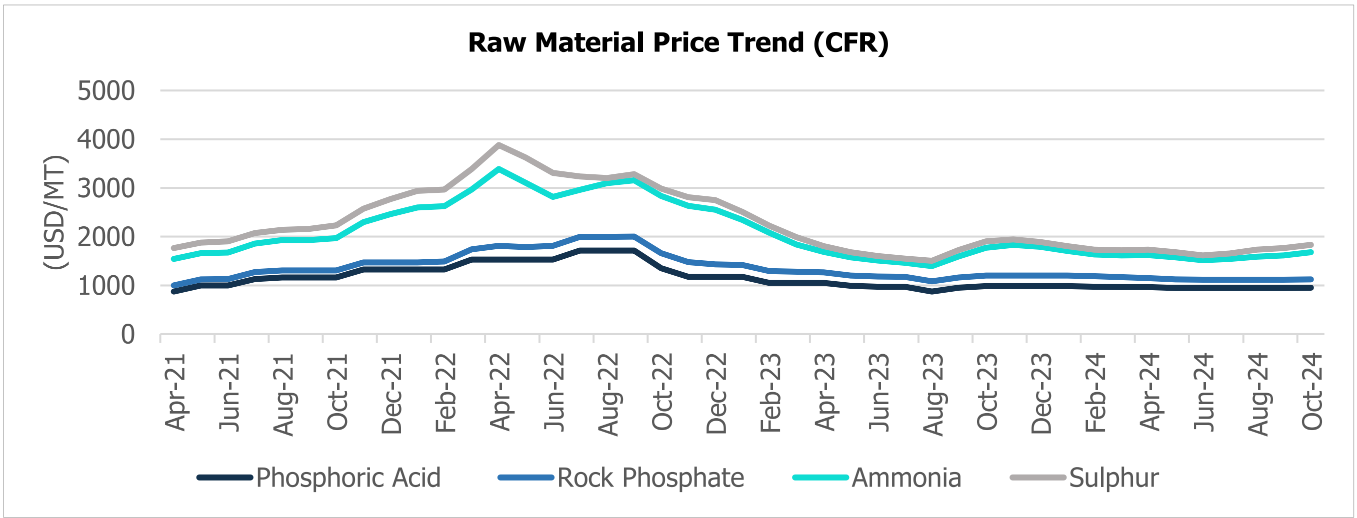
Fertiliser sector: Demand to Grow by 2%-3%, While Some Concerns Persist Around Availability of DAP

December 19, 2024 | Ratings

Synopsis

- Fertiliser consumption is expected to grow by 2%-3% in FY25 due to an above-normal monsoon this year, adequate reservoir level, timely upward revision in Minimum Support Prices (MSPs) for major Kharif & Rabi crops, and increased area under cultivation.
- Prices of major raw materials for fertilisers have rationalised post the sharp increase witnessed in FY23. Natural gas prices have also declined after a sudden spike post-the outbreak of the Russia-Ukraine war.
- While India is gradually moving towards self-sufficiency in its highly consumed fertiliser viz., Urea, the import dependency remains high for complex fertilisers.
- Di-ammonium phosphate (DAP) is the second-highest consumed fertiliser in India after Urea, with close to half of India's consumption requirement met through imports. During H1FY25, the production of DAP, and especially its imports, has reduced significantly on a y-o-y basis, resulting in lower availability of DAP this year just before the onset of Rabi sowing season.
- The government's subsidy budget for FY25 stands at Rs 1.64 lakh crore, which is ~16% lower than FY24, mainly due to reduced raw material and gas prices. Further, there is recent upward revision in original NPK subsidy budget by ~Rs.6600 crore in December 2024. With this, the subsidy budget is expected to be largely sufficient for FY25.

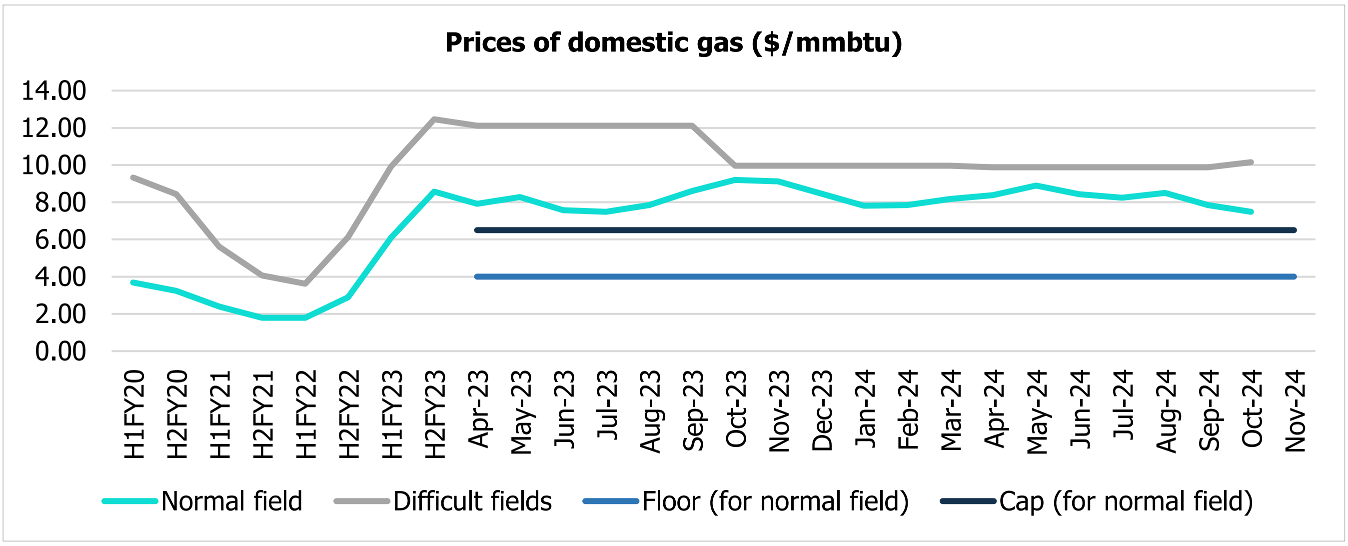
Rationalization of prices of key raw materials



Source: Dept. of Fertilizers; CFR: Cost and Freight

The key raw materials to produce fertilisers include ammonia, phosphoric acid, rock phosphate and sulphur. Prices of all the key raw materials remained elevated in the latter part of FY22 and most of FY23 before rationalising thereafter, thus paving the way for easing of fertiliser prices and consequently the subsidy requirement. However, the prices of ammonia have started increasing since June 2024.

Stabilisation of prices of domestic Natural gas

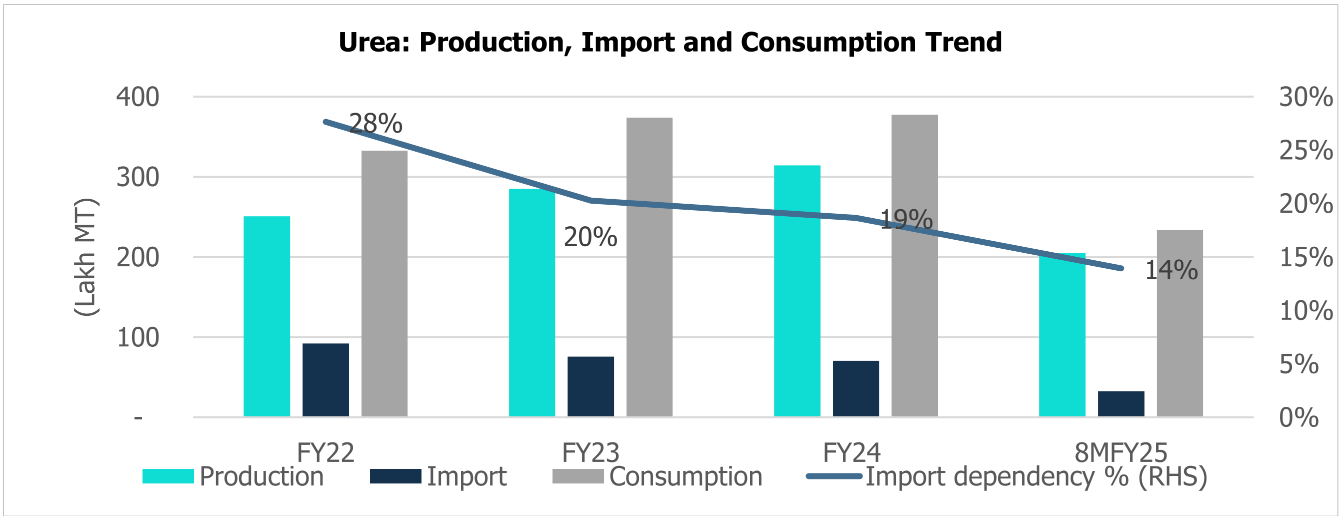


Source: Petroleum Planning and Analysis Cell; mmBtu: metric million British thermal unit

Natural gas forms majority of the input cost for Urea production and is an important input for other fertilisers as well. Out of total domestic gas production, more than 50% is consumed by the fertiliser sector followed by other sectors. Domestic gas is extracted from a mix of both normal and difficult fields.

The formula-driven prices for domestic gas have also got rationalised with the softening of imported gas prices. The price of gas from normal fields is currently capped at $6.50/mmbtu, whereas the price of gas extracted from difficult fields is at $10/mmbtu. In comparison, imported gas prices are currently hovering at around $12-13/mmbtu, down from the high of $40-50/mmbtu seen in FY23 post-outbreak of the Russia-Ukraine war. The rationalised prices of domestic and imported gas are helping the sector in lower production cost and, in turn, reduce the subsidy requirement.

Reduced import dependency for Urea

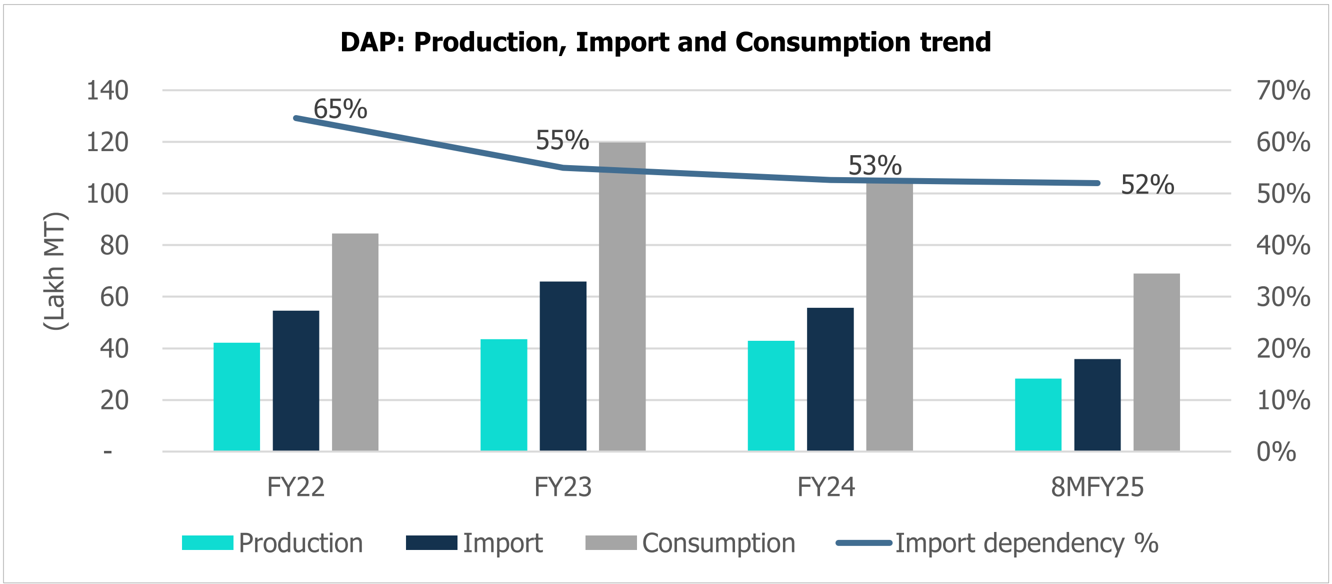


Source: Dept. of Fertilisers and CareEdge Ratings

Historically, India has been dependent on urea import to the extent of 25%-28% to meet its requirement. To boost its domestic production, the government notified the New Investment Policy 2012 in fiscal 2013. Under this, six plants with a capacity of 12.7 lakh MT each have been gradually commissioned over the past five fiscals. As a result, the total installed capacity of Urea in India increased by around 30% to the present capacity of 313 lakh MT with most of the urea capacities operating at optimum capacity utilisation level.

Dependence on the import of urea has seen a decline from 25%-28% earlier to 19%-20% in recent years, with the stabilisation of added capacities in the domestic market over FY22-FY24 leading to higher domestic production. With the proposed commissioning of an additional 12.7 LMTPA capacity, import dependency is expected to further reduce to less than 15% by FY26.

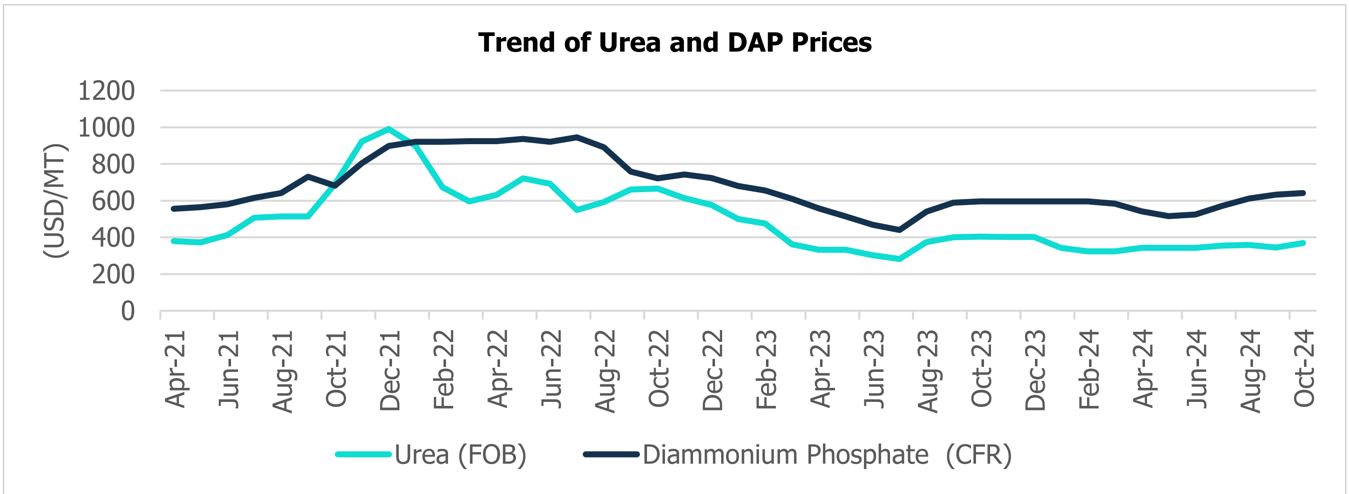
High import dependency for DAP



Source: Dept. of Fertilisers

More than half of India's requirement for DAP is met through imports. DAP contains 46% phosphate and 18% nitrogen. Rock phosphate is the key raw material for DAP and other NPK fertilisers, and due to the meagre natural resources of rock phosphate in India, we are majorly dependent on imports for them as well. Accordingly, import dependency for DAP is expected to continue going forward.

Urea prices have normalised while DAP prices are on an increasing trend

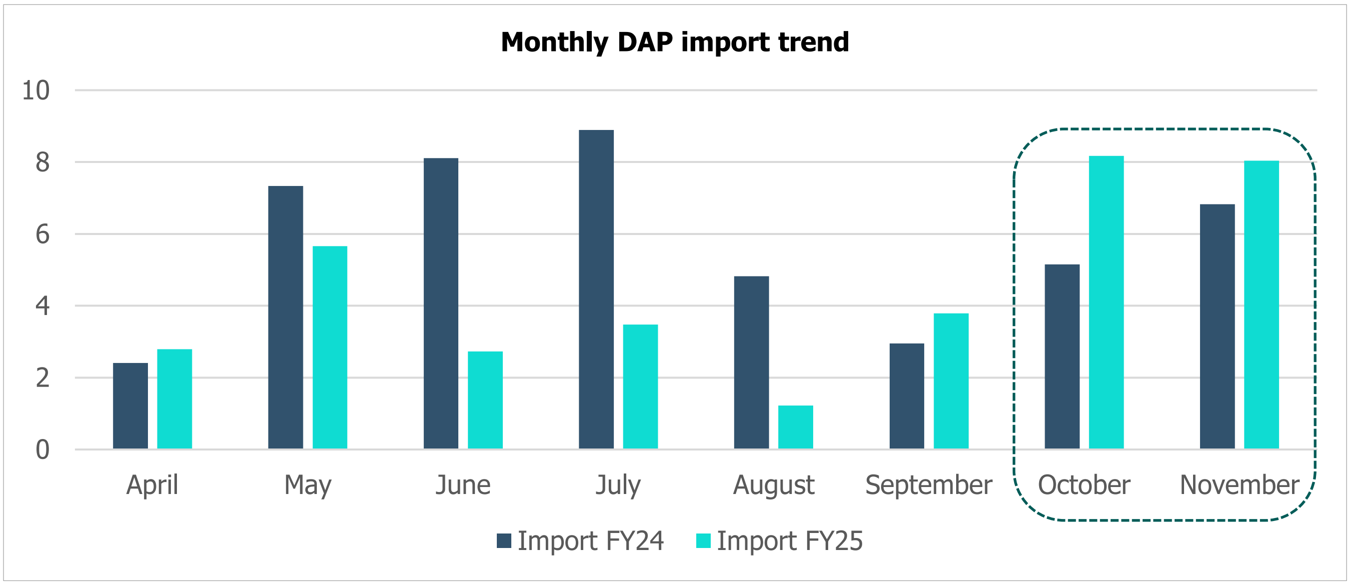


Source: Dept. of Fertilizer

Fertiliser prices were extremely high in FY22 and FY23 due to rise in raw material and gas prices, driven by disruptions caused by the outbreak of war between Russia and Ukraine. This was compounded by the short supply of few key raw materials due to sanctions on Russia and Belarus, increased freight rates and coal prices, China's suspension of the export of certain fertilisers, and a general rise in rise in commodity prices globally.

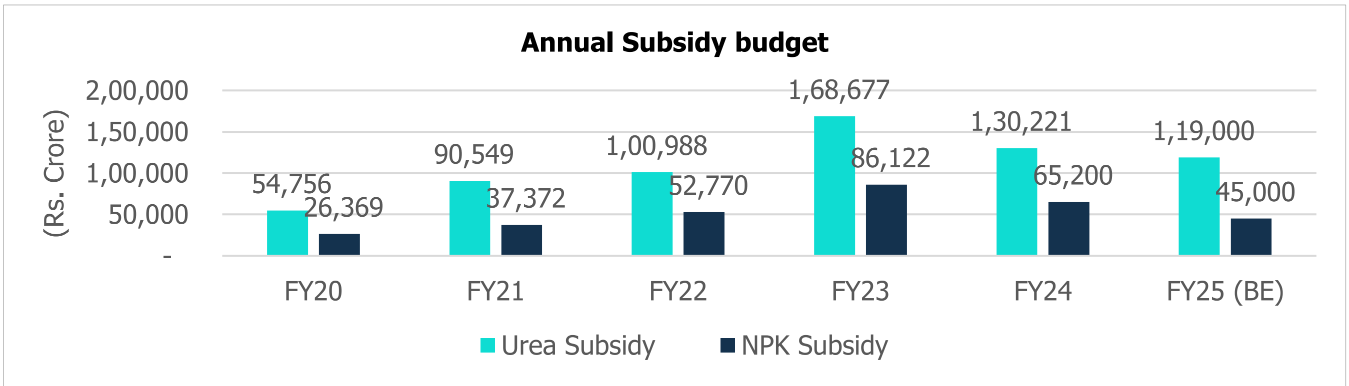
Prices started cooling down in FY24 and remained largely stable. However, DAP prices have recently surged again due to supply-side concerns, and there are some concerns about its adequate availability as India continues to be heavily dependent on imports.

Lower imports of DAP; picking up pace



During H1FY25, the production of DAP, and especially its imports, has reduced on y-o-y basis. With the onset of the Rabi sowing season, the assessed requirement of DAP for Rabi season is estimated at 55 lakh MT, while the carry-forward stock as of October 01, 2024, was around 47% lower than a year ago. However, DAP imports have improved in October & November 2024. Thus, DAP's availability and/or Government intervention to ensure DAP is available in the required quantities will remain key monitorable factors, especially considering its increased prices.

Reduced subsidy budget allocation for FY25; albeit recent upward revision of NPK subsidy



Historically, the subsidy budget ranged from Rs 70,000 crore to Rs 80,000 crore p.a. from FY17 to FY20. The total subsidy outlay increased by 58% during FY21 to ~Rs.1.28 lakh crore, mainly due to an additional allocation under the Atmanirbhar package of ~Rs 62,600 crore, targeted towards clearing previous subsidy backlogs which had been created due to NBS-1.

The subsidy pay-out further increased to ~Rs 1.54 lakh crore in FY22, with rising gas prices leading to a higher subsidy for urea, while an increase in key raw material prices led to a higher subsidy for NPK as well. In FY23, the fertiliser subsidy reached an all-time high of Rs 2.55 lakh crore due to a sharp rise in almost all the input prices. With the easing of input costs, including gas, the subsidy was reduced to Rs 1.95 lakh crore in FY24, and further to Rs 1.64 lakh crore for FY25. Overall, 76% of the subsidy budget (i.e. 83% and 75% for nutrient based and urea subsidy respectively) has been utilised till November 2024. Given that 83% of the budgeted nutrient-based subsidy has already been released, and with the input prices of ammonia and imported DAP on a rising trend, the Government has approved additional subsidy of ~Rs.6,600 crore on December 12, 2024 for the P&K fertilisers. Revised subsidy budget of Rs.1.71 lakh crore is now expected to be adequate at prevailing raw material prices.

CareEdge Ratings View

"Demand for fertilisers in FY25 is expected to grow by 2-3% following a de-growth of ~1% in FY24, mainly due to an above normal monsoon, adequate reservoir level, and enhanced MSPs for major crops, leading to an increase in area under cultivation. The reduction in prices of major raw materials for fertilisers compared to the historical highs witnessed in the past few years also augurs well for the sector. Import dependency for Urea has steadily reduced over the years, while for complex fertilisers, import dependency is expected to be sustained due to the limited availability of key raw material (rock phosphate) in the domestic market. Before the onset of rabi sowing, which is slightly delayed due to extended monsoon, there appear to be some challenges in adequate availability of DAP in some parts of the country, mainly due to higher imported prices, lower exports by China and Red Sea logistic issues leading to higher transportation time for its imports to India. However, sizeable import of DAP in recent months is expected to ease the shortage situation,' said Richa Bagaria, Associate Director at CareEdge Ratings.

"Credit risk profile of fertilizer companies has improved over the last three years with adequate subsidy budget and timely release of subsidy, enabling them to sustain any potential subsidy backlog. In-spite of the recent spike in ammonia prices and those of imported DAP, the subsidy budget for FY25 is expected to be largely sufficient on the back of recent upward revision in NPK subsidy budget. This translates into continued strong financial health and no major build-up of subsidy backlog for fertiliser companies," said Hardik Shah, Director at CareEdge Ratings.

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