



Satish Chander

Present Fertilizer Scenario

ratio which vitiated from 4.7:2.3:1 in 2010-11 to 6.7:3.1:1 in 2011-12 and further widened in the subsequent two years at around 8:3:1. Subsequently, there has not been any significant improvement in NPK use ratio. The government has made efforts to check increase in urea use through various policies, such as, making it mandatory to coat 100% urea with neem oil and reduce size of bag of urea from 50 kg to 45 kg. However, to make a positive impact on NPK use ratio, it is necessary to correct urea price in relation to prices of P & K fertilizers.

As regards availability of fertilizers, there was adequate stock to start with the sowing operations at the beginning of the year 2017-18. Inventory of urea at various points excluding stock at the dealers' points was more than 2 million MT at the beginning of the year. Similarly, inventory of DAP and NP/NPKs together was about 1.5 million MT, SSP 0.56 million MT and MOP 0.54 million MT. Coupled with comfortable inventory, fertilizers sourced from indigenous production and imports during the year was adequate to take care of the demand for 2017-18.

The fertilizer sector is one of the core sectors of Indian economy. The remarkable role of fertilizers in the context of achieving self-sufficiency in food grain production is well documented. Foodgrain production has increased to a record level of 280 million tonnes in 2017-18 from less than 74 million tonnes way back in mid-sixties. Similarly, there has been significant growth in production of other agricultural crops as well as horticultural crops during the period. Current production of fruits & vegetables is about 300 million tonnes. It would be interesting to examine the performance of the sector in 2017-18 and assess the prospects for 2018-19 based on developing scenario.

It is well known that among various factors which influence fertilizer use, weather plays an important role. Among four monsoon seasons, rains received from south west monsoon accounts for more than 70 per cent of total rainfall received in the country in a year. Moreover, the time and pattern of distribution of rains is crucial for fertilizer use. Rainfall during South-west monsoon of 2017 (June / September) was normal at the country level. Out of a total of 36 meteorological sub-divisions, 30 sub-divisions received excess/normal rainfall and remaining 6 sub-divisions received deficient rainfall. Total rainfall received during the period was 841 mm, 5% below the long period average (LPA). While the rainfall was normal in major part of the country, some of the states received deficient rains and a few others witnessed excess rains which had affected fertilizer use in these states.

Backed by normal weather in major part of the country, and coverage of area above normal in both kharif and rabi seasons, All-India fertilizer consumption has showed a modest growth in 2017-18 over the previous year. Total sale in terms of nutrients at 26.7 million metric tonnes (MMT) in 2017-18 was higher by 3.5% than the previous year. It may be recollected that Nutrient based Subsidy (NBS) implemented for phosphatic (P) & potassic (K) fertilizers in 2010-11 led to imbalance in prices of phosphatic (P) & potassic (K) fertilizers due to disproportionately low price of urea vis-à-vis higher prices of P & K fertilizers. This caused imbalance in NPK use

Looking at the indigenous production scenario, it is observed that overall production of total nutrients (N+P) registered a modest growth of 1.3% during 2017-18 over the previous year. Production of N at 13.43 million MT during 2017-18 witnessed a marginal increase of 0.4% over 2016-17. The production of P at 4.73 million MT recorded an increase of 3.8% during the period. Production of urea was down while DAP and NP/NPKs showed some improvement over the previous year. In fact, production of urea has been going down for last three years. It dropped from 24.5 million tonnes in 2015-16 to 24.2 million tonnes in 2016-17 and 24 million tonnes in 2017-18. This is partly due to fall in production beyond reassessed capacity (RAC) caused by un-remunerative pricing mechanism. Non-updating of fixed cost is slowly making production beyond reassessed capacity un-remunerative. To survive production beyond RAC, notified minimum fixed cost of Rs.2300 per tonne should be paid. Apart from this, supply of natural gas from domestic sources has been consistently falling over the years. Share of natural gas from domestic sources has fallen from 69% in 2013-14 to 45% in 2017-18 and 39% in April 2018. Shortfall in domestic gas supply is substituted through high cost imported LNG resulting in higher gas pool price which also has an effect on viability of production beyond reassessed capacity. In addition, it is also pushing up urea subsidy.

The production of DAP and NP/NPK complex fertilizers has shown some improvement in 2017-18 over the previous year. But overall capacity utilization of P_2O_5 is still low at 67% which was close to 100% in late nineties. This is mainly due to faulty taxation regime which has caused indigenous manufacture of phosphatic fertilizers non-competitive. Basic economic principle of keeping import duty on inputs lower than finished products has been defied in the phosphatic sector as customs duty on

input and output is same. For example, customs duty on ammonia and phosphoric acid is same as finished products at 5%. In addition, higher GST on ammonia and phosphoric acid has given further blow to domestic production of P & K fertilizers. GST on ammonia is 18% and phosphoric acid 12% as against 5% on finished fertilizers. Moreover, there is no timely refund of input tax credit accumulated due to inverted GST rates increasing the working capital requirement of the industry. Compared with this, imported DAP attracts only 5% GST and the imports do not have large input tax credit.

Import of urea increased by 9% and MOP by 27% during 2017-18. Conversely, import of DAP and NP/NPKs fell by 3.8% and 4.4%, respectively, during 2017-18 over 2016-17. The quantum import of urea, DAP, NP/NPKs and MOP was 5.98 million MT, 4.22 million MT, 0.50 million MT and 4.74 million MT respectively, during 2017-18. Import of urea is likely to fall in coming years when 2 new plants (Chambal Fertilizers, Gadepan III and Ramagundan Fert. & Chems., Ramagundam) in pipeline are commissioned and production by Matix Fertilizers gets stabilized by the end of the current year.

Movement of fertilizers across this vast country is vital for timely availability in crop seasons. At present, out of a total yearly consumption of 56 million tonnes of fertilizer products, about 80% is moved by rail and 20% by road. There is serious shortfall in availability of rakes. The government of India is encouraging movement of domestic cargo by coastal/ inland waterways to reduce the pressure on rail. About 25 million tonnes of imported fertilizer products and indigenous NP/NPK fertilizers manufactured by coastal based plants are currently moved by rail. In addition some quantities of imported raw materials are also moved to hinterland by rail. At least part of these quantities could be moved by coastal / inland waterways. Fertiliser industry has supported this initiative. One vessel was successfully despatched from Kandla to New Mangalore and Tuticorin carrying 12,000 tonnes of

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fertilizers in March 2018 as trail run. But presently cost of coastal shipping is higher than current arrangement of movement of fertilizers by rail. Reimbursement of freight is governed by a separate policy according to which lower of the railway freight or freight by coastal shipping will be reimbursed. Therefore, higher cost for coastal shipping is not being reimbursed by the government under the existing policy. The issue has been taken up with the government to provide concessional port tariff as it is extended to some other commodities. Fertilizer being an essential commodity, a rebate may be given on the notified tariff. Further, notional labour charges should be waived and port may provide storage facilities in ports for two weeks without any charges. This will help to make coastal shipping competitive with railways.

Having discussed, the fertilizer situation in the past year, let us look at the prospects for the current year. IMD has recently issued the 2nd stage Long range Forecasts of monsoon in June 2018. As per this forecasts, South west monsoon 2018 is expected to be normal. The monsoon arrived in Kerala a few days before the scheduled date of arrival (1st June). Initial rainfall was good but it weakened in later part of June. Overall rainfall was 10% below the Long Period Average (LPA) upto 29th June. The aggregate planted area for kharif season averages around 106 million hectares (mha) covering mainly rice, coarse cereals, pulses, oilseeds, cotton and sugarcane. The sowing of kharif crops has been slow but is expected to pick up with good spread of rains in

coming months. Fertilizer sales during first two months of the current year (April/May 2018) showed a robust growth. Sale of urea increased by 11%, DAP by 16%, NP/NPKs by 42% and MOP by 42% over corresponding period of the previous year.

Against the expectation of normal south-west monsoon, there are some concerns which may affect fertilizer demand adversely. International prices of finished fertilizers and raw materials have moved upwards very significantly. This added with depreciation of Indian Rupee has increased CFR prices of all fertilizer products. This has already increased retail prices of phosphatic and potassic fertilizers for farmers. This may necessitate intervention of government by way of increase in subsidy under nutrient based subsidy (NBS) scheme. Average cost for natural gas has gone up by at least US\$ 1.40 per MMBTU which will lead to increase in cost of production of urea. This will increase urea subsidy. Provision of subsidy of Rs.70,090.35 crore for 2018-19 will prove to be grossly inadequate, especially in view of arrears of previous years.

It may be noted that Direct Benefit Transfer (DBT) in fertilizer sector has been rolled in entire country w.e.f March 2018. Subsidy will continue to be routed through the industry. But it has to be paid on weekly basis. It means all past arrears have to be paid to keep the payments current. This would require significant increase in provision of subsidy. In absence of increase in budgetary allocation for fertilizer subsidy, sale of fertilizers may get affected. As mentioned earlier, import of urea may be lower this year due to contribution from new projects. However, domestic production of DAP may get affected due to the factors beyond control of industry necessitating larger imports.

Notwithstanding various challenges faced by the industry on different fronts, fertilizer industry is committed to ensure adequate supply of fertilizers in every nook and corner of the country to sustain enhancement in agricultural production and farm income. ■