



**Satish Chander**

## Liquidity Crisis in Fertilizer Sector

the increase in food grain production since green revolution has been contributed by fertilizers. The significant economic contribution of fertilizers can be gauged by the annual value of incremental food grains production, which has increased from about 72 million tonnes in 1965-66 to about 296 million tonnes in 2019-20.

The Department of Fertilizers (DOF) amid COVID-19 Pandemic has taken prompt actions to facilitate un-interrupted production, movement and supply of fertilizers by addressing the logistic issues faced by fertilizer industry. Domestic fertilizer industry has also responded well to such initiatives and has gone out of way even at extra costs to ensure uninterrupted production and supply of fertilizers throughout the country. As a result, fertilizer sales during April-May 2020 at about 6 million tonnes have also been higher by 76% compared to the same period of previous year. This is another indicator of continuing growth in fertilizer and agriculture sector.

Agriculture has been the backbone of Indian economy. This is not only for ensuring food security of the country, but also for employment and income generation for rural population. Agricultural growth has a multiplier effect in accelerating growth in other sectors. Government has rightly recognised and stated recently that agriculture sector remains the foundation of Indian economy and with forecast of normal monsoon for *kharif* 2020, it should support the rebooting of country's economy. Government of India and RBI have already initiated a number of policy measures to reinvigorate the economy at the earliest.

However, the domestic fertilizer industry is currently facing one of the worst ever liquidity crises due to inordinate delays in payment of its subsidy dues from the government. This is in spite of DOF's efforts to redress the same including arrangement of bank loan against subsidy receivables in March 2020 and arranging higher allocation for April 2020 beyond monthly restrictions. The delays are primarily due to budget constraints of the government. Monthly/quarterly restrictions in release of budget allocation besides administrative delays by the government in enabling bill generation and processing further aggravate the situation.

Initiatives pertaining to agriculture sector include *inter-alia* prompt delivery of Kisan Samman Nidhi directly into the farmers' bank accounts, improving liquidity in the financial system to promote credit flow, amendment in agricultural marketing laws to provide freedom to farmers to sell their products and realise remunerative prices and relaxation in Essential Commodities Act, 1955. All these steps by the government are in right direction and are expected to directly and indirectly empower farmers, minimize intermediaries and improve price realisation by the farmers.

The year 2020-21 started with an unpaid subsidy dues of previous years of Rs. 48,000 crore. Actual deficit till 2019-20 was Rs. 58,000 crore including bank loan of Rs. 10,000 crore given during March 2020 under Special Banking Arrangement (SBA). The budget allocation for 2020-21 has been reduced by about Rs. 8,700 crore to Rs. 71,309 crore from Rs.79,998 crore for 2019-20. Total requirement of subsidy for 2020-21 including backlog of Rs. 48,000 crore and current years estimated requirement of Rs. 80,000 crore is Rs. 1,28,000 crore. Even if a normal carry forward of Rs. 20,000 crore at the end of 2020-21 is assumed, the balance requirement for the year is at least Rs. 1,08,000 crore.

Agriculture has responded well with record foodgrain production for 2019-20 at 296 million tonnes. Procurement of wheat from farmers by government agencies this year has also been record 38.2 million tonnes till 16<sup>th</sup> June 2020. Crop sown during *kharif* this year till 19<sup>th</sup> June, 2020 has been higher by about 40%, showing continuation of growth momentum in agriculture even during 2020-21.

Fertilizer is one of the most crucial inputs for agriculture. It is well recognized that about 50% of

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Department of fertilizers has been kept in B category for release of budget allocation for fertilizer subsidy by the Finance Ministry under Modified Exchequer Control Based Expenditure Management as per Finance Ministry's Office Memorandum dated 8<sup>th</sup> April, 2020 and 23<sup>rd</sup> June, 2020 as part of austerity measures in view of COVID 19 pandemic. For category B, only 80% of the annual budget (20% in every quarter) will be released with monthly/quarterly restrictions.

Thus, only Rs. 57,047 crore (80% of Rs.71.309 crore) will be available for 2020-21. More than Rs. 10,000 crore has already been utilized in repaying the loans of previous years under SBA along with interest. Thus, balance funds left for the entire year 2020-21 is only Rs. 47,047 crore. This amount is not sufficient even to clear the outstanding payments to the industry for the earlier years.

Domestic urea industry, where subsidy represents about 75% of the total cost, has not received monthly subsidy payments since last week of October 2019, a backlog of more than 7 months. This is against the government policy for weekly payment of subsidy under DBT policy implemented since March, 2018. P & K fertilizer segment has got payments till March, 2020 or 1<sup>st</sup> week of April 2020. But, there has been no payment thereafter, as there was no allocation during May and June for P&K fertilizers. Major portion of allocation during May and June has been used in payment of subsidy on imported urea, while domestic industry continues to suffer.

Needless to mention, any disruption in production and supply of fertilizers at this juncture when government is planning to reboot Indian economy through agriculture, may severely impact crop productivity and growth prospect of agriculture. Agriculture due to the multiplier effect has the capacity to pull back the economy into positive growth.

Perennial liquidity crisis of fertilizer sector calls for multipronged strategy. There is a need for

additional allocation of at least Rs. 50,000 crores for 2020-21. The government and the RBI have been providing a series of stimulus to a number of sectors for their revival at a cost of Rs. 20 lakh crore. Fertilizer industry is only seeking the payment of its genuine dues from the government for their survival and to ensure uninterrupted supply of this crucial input for agriculture.

Equally important is the need for shifting payment of fertilizer subsidy from Category B to A to facilitate full utilization of budget allocation. Removing the monthly/quarterly restrictions in release of already allocated funds is also necessary to ensure that the industry's payments are not held up till allocated budget is exhausted. While many other sectors are given relaxation in repayment of loans and interests to keep them afloat, there is hardly any justification for imposing such restriction in release of already allocated funds for fertilizer subsidy, especially in view of huge backlog of Rs. 48,000 crore at the beginning of the year itself.

Unpaid subsidy dues of about Rs. 40,000 crore are being carried forward from one year to another for the past several years. The government has not been able to address this issue due to tight fiscal conditions. In view of this, there is a need for standing arrangement of financing against subsidy receivables of fertilizer companies by banks where interest on such loans is borne by the government. RBI also needs to remove the current time limit of 60 days for financing of working capital by banks against subsidy receivables of fertilizer companies. RBI has relaxed a number of norms to improve liquidity of many sectors of the economy. Removal of this restriction for fertilizer sector will be helpful for both the government and the industry in maintaining their liquidity. Government should fulfil its commitment of ensuring weekly payment of subsidy as envisaged in DBT policy.

Another measure to provide relief to the industry is deferred payment for natural gas. Cost of gas accounts for major cost of production of urea (about 70%). Industry has to settle the bills of gas on fortnightly basis. GAIL can extend credit period for at least 6 months and reasonable interest thereon can be paid by the government directly to GAIL.

In conclusion, industry needs liquidity by any means to sustain its operation. Only Central Government can provide remedy to the problem which can avoid disruption in supply of fertilizers. ■