



**Satish Chander**

## Fertiliser Sector during 2016-17

Fertiliser sector continued to face serious challenges during 2016-17. The year started with high inventory of fertilisers, nominal increase in production, lower imports, negative growth in consumption despite normal weather, persistent liquidity problem for the industry caused by delay in payment of subsidy. Nevertheless, the industry continued to perform its onerous task by ensuring quality fertilisers to the farmers in time throughout the country. It is heartening to mention here that followed by softening in international prices of fertilisers and raw materials, fertiliser industry reduced substantially retail prices of P & K fertilisers during the year despite reduction in rates of subsidy under NBS policy. It is also noteworthy to mention that the industry gave its full support to the government after demonetization of high value currency notes. Industry extended its credit limits after demonetization of high value currency notes to enable the farmers to continue to buy the fertilisers. The highlights of developments in fertiliser and agriculture sectors in 2016-17 with prospects for 2017-18 are presented in the following paragraphs.

After two consecutive years of poor monsoon, overall rainfall during south-west monsoon (June/September) of 2016 was normal. Out of a total of 36 meteorological sub-divisions, 27 sub-divisions received excess/normal rainfall and remaining 9 received deficient rainfall. About 68 per cent of total number of reported districts received normal to excess rains during the period. While overall rainfall was normal during the monsoon season, its pattern of distribution according to geographical divisions was found to be uneven during the period. Rainfall was higher than long

period average (LPA) only in Central India (+6%) but lower in other geographical sub divisions, viz., East & North East India (-11%), South peninsula (-7%) and North West India (-5%). Uneven distribution of rainfall led to lower consumption of fertilisers in some of the major states.

There was large opening inventory of fertilisers in various channels at the beginning of the year 2016-17. Fertiliser sale was subdued during the year due to high opening inventory. The consumption of fertiliser nutrients showed negative growth in 2016-17 compared to the previous year. Total nutrient consumption at 25.95 million tonnes was 3 per cent lower than the level of the previous year.

Production of fertilisers showed only a very marginal improvement of 0.1% in terms of nutrients in 2016-17 over 2015-16. The improvement was due to significant increase in DAP production although other fertilisers witnessed negative growth. Production of urea, NP/NPK complex fertilisers and SSP fell by 1%, 5% and 1%, respectively, while DAP marked increase of over 13% during the period.

Pooling of prices of natural gas for urea plants gave boost to production of urea in 2015-16 and it was expected that it will further increase in 2016-17. But the production of urea declined from of 24.46 million tonnes in 2015-16 to 24.20 million tonnes in 2016-17. Non implementation of Modified NPS III Policy for existing urea units in respect of production beyond reassessed capacity had an adverse impact on urea production.

Capacity utilization and production of phosphatic fertilisers continued to remain below par for the sixth consecutive year due to unfair competition from imports. The industry concerns of the adverse import duty structure on raw materials and finished products remains unaddressed. A high GST rate of 18% on raw materials along with 5% import duty compared to 5% GST on finished fertilisers will further dent the viability of domestic production of DAP and other complex fertilisers. In fact, present GST rates favour imports at the expense of domestic production.

Supply of domestic gas to fertiliser plants continued to decline for third consecutive year. The domestic

supply of gas declined from an average of 24.6 MMSCMD in 2015-16 to 20.7 MMSCMD in 2016-17. Share of domestic gas in total supply of gas to fertiliser plants declined from 56.6% to 49.0% during the period. The balance requirement was fulfilled by imported LNG. Increase in share of more expensive imported gas increased the pooled gas price for urea plants.

Fertiliser Industry continued to suffer due to inadequate budget allocations with large amount of unpaid subsidy dues carried forward from one year to the other. Yearly carry forward amount of subsidy have been about Rs.40,000 crores for the past few years. The interest cost alone on such pending bills comes about Rs.4000 crore per annum.

In addition, both urea and P & K industry continued to suffer on various accounts. Industry continued to face severe liquidity problem due to delayed payment of subsidy. Urea industry also suffered due to non-payment of increased fixed cost as per Modified NPS III policy and other governance and policy issues. In case of P & K fertilisers, NBS rates for N and P were reduced significantly for 2016-17. For K, it was reduced nominally.

As mentioned earlier, inspite of reduction in NBS rates for P & K fertilisers by the government, fertiliser industry substantially reduced the farmers prices (MRP) of these fertilisers. Retail price of DAP was reduced by about Rs.4000 per tonne in two trenches, NP/NPKs by Rs. 1000 per tonne and MOP by Rs.5000 per tonne. This caused loss to the industry to the

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tune of Rs.1000 crores for disposal of high cost old stocks. The industry continued to maintain its efforts to supply fertilisers at affordable prices to the farmers sacrificing its operating margins. As per the notifications of NBS rates, prices of P & K fertilisers are open and fertiliser companies are allowed to fix MRPs at reasonable level. But in spite of representations by the FAI, there has not been any development in regard to fixation of criteria for determination of reasonable MRP of P & K fertilisers.

SSP industry still continues to face discrimination in procedure for payment of subsidy. It also does not get reimbursement of freight at all while all other fertilisers in the category receive reimbursement of primary freight. Restriction on import of rock phosphate only from specified sources also affects the competitiveness of the SSP industry. Government has not addressed these issues of the SSP industry in spite of representations.

Against this brief background review of 2016-17, there is need for making a fair assessment of the prospects for 2017-18. As regards weather, rainfall during June and

July months of south west monsoon 2017 was normal, followed by deficit experienced in August. The month of June and July ended with the surplus of 4% and 2% respectively. In the month of August, cumulative rain ended with a deficiency of 3%. During September 2017, rainfall picked up due to late withdrawal of monsoon. Consequently, there is sufficient moisture available for *rabi* sowing besides adequate water availability in reservoirs. But *kharif* crop production was reported to have been affected to some extent due to floods in Rajasthan, Gujarat, Uttar Pradesh, Bihar and Assam.

The reports of fertiliser sales show a high growth in first five months of the current year over last year. Sale of urea, DAP, SSP and MOP marked increase of 3%, 16%, 10% and 51%, respectively, during April-August, 2017 over the corresponding period of last year. Complex fertilisers, however, registered marginal decline of 0.7% during the period.

Keeping in view good rains received from South west monsoon 2017, adequate water storage in the reservoirs at the beginning of *Rabi* 2017-18 with sufficient moisture availability in the soil, overall consumption of fertiliser nutrients during the full year 2017-18 may show an increase of about 5% above the previous year's level.

The current issue of Indian Journal of Fertilisers includes *Annual Review of Fertiliser Production and Consumption* 2016-17. The review presents an elaborate overview of fertiliser and agriculture situation in India during 2016-17 and outlook for 2017-18. ■