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Frank Notes

Satish Chander

Fertilizer Industry Amidst COVID-19 Crisis

The world is facing an unprecedented crisis posed by pandemic due to corona virus. It has emerged as a threat not only to health and safety of mankind but has also impacted the economies across the world. The transmission of virus from human to human has affected a large population around the world. As there is no treatment or vaccination available for COVID-19, only option left is to stop community spread by restricting the movement of the people. The Government of India announced the complete lockdown in the country w.e.f. from March 25, 2020 for 21 days and extended it by 19 more days till May 3, 2020. It was further extended by two weeks with relaxations in some more activities.

All economic activities came to standstill except essential commodities and services after the lock down. Fertilizer sector falls under the Essential Commodities Act and hence was exempted from lock down restrictions. But lockdown posed a number of challenges for continuous operation of fertilizer plants. The fertilizer production is a continuous process but its consumption is seasonal. To ensure availability of fertilizers to the farmers in time, it is essential that fertilizer plants operate all around the year. The fertilizer products need to be made available in every nook and corner of the country. The movement of fertilizers takes place both through rail and road. Railway rakes were available but challenge was availability of labour at plant sites for loading and for unloading at destination points. Plants have limited storage capacity. Therefore, regular evacuation of material is necessary. Availability of consumable materials such as bags and chemicals which are required for continuous operation also posed challenge in some plants. A few plants had to undertake shutdown or operate at reduced load. A few other plants were not able to restart production after annual turnaround.

The government has been very prompt in addressing the issues faced by the industry due to COVID 19. Clarifications from the Ministry of Home Affairs helped in continuous operation of fertilizer plants, sales and interstate movement of fertilizers to some extent. The Ministry of Railways relaxed the rate of demurrage and wharfage charged initially to half and later completely waive the charges till the extended period of lockdown *i.e.* May 17, 2020. Hopefully concessions by Railways will be extended till the situation becomes normal. The industry on its part made best efforts for ensuring production and movement of fertilizers. The operations are being continued with limited manpower with all safety and health precautions.

Fertilizer industry faced another serious challenge to maintain normal operation. Industry was starved of its working capital due to huge unpaid subsidy dues. Implementation of DBT had increased the payment cycle from 1-2 months to 4-6 months. Inadequacy of budget for fertilizer subsidy has been causing halt in payments from August-September every year. The latest data show that there were unpaid arrears to the tune of Rs. 48,000 crore at the end of financial year 2019-20 in spite of payment of Rs. 10,000 crore in March 2020 by way of loans from the banks through special banking arrangement. The situation deteriorated further in April when hope faded for payment of carry over dues. Even before COVID-19, the allocation for fertilizer subsidy in the budget for the year 2020-2021 was reduced to Rs. 71,309 crore from the revised estimate of Rs. 80,000 crore for 2019-20. Further, due to situation arising out of the COVID-19 pandemic, Ministry of Finance put monthly and quarterly restriction on disbursal of funds as part of its cash management measures. The loan of Rs. 10,000 crore taken from banks in March 2020 had to be settled with interest in April this year out of funds available for fertilizer subsidy leaving no funds in April for payment to industry. This posed a grave liquidity problem for fertilizer companies. On representation from industry, government recognized the problem and released Rs. 22,018 crore for the month of April. This should relieve the pressure somewhat but basic problem of huge unpaid subsidy remains. The actual

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requirement for fertilizer subsidy for 2020-21 is Rs.1.20 lakh crore to make the payments current at the end of this year.

Urea manufacturing companies face more serious problem because on an average subsidy constitute 70% of cost of production. There was interest cost on working capital of the order of Rs. 2,100 crore in 2019-20. Only a fraction of this is recognized in urea pricing mechanism. It may be underlined that average interest cost on working capital was estimated to be about Rs.100 per tonne urea for most units in 2002-03. This has escalated to almost Rs. 900 per tonne in 2019-20 due to high level of subsidy and undue delay in settlement of industry dues. Urea manufacturers have no avenue to recover this interest cost.

There are competing demands on finances of the Central Government from all economic and social sectors. It is obvious that in order to provide stimulus to the economy and take care of the basic needs of the poor after the shock of COVID-19, government will have to resort to deficit financing. Fertilizer industry is also in dire need of liquidity in absence of settlement of its dues which is nothing but reimbursement of cost of production for past years. Government should maintain flow of funds for fertilizer subsidy payment in May and June. Otherwise, fertilizer companies may default on payment to supplier of natural gas *i.e.* GAIL. This may lead to closure of plants and loss of production which will have to be substituted with imports. Import of urea takes place on government account and has to be paid for in advance. Moreover, handling of additional quantities and transportation from ports has its own set of challenges.

Industry has also been requesting the government and the Reserve Bank of India (RBI) to liberalize the terms of borrowing from the banks against subsidy receivables. RBI guidelines permit lending by the banks only for a period of 60 days against subsidy receivables which should be increased to 180 days. This has been done in the past and today's situation is extraordinary necessitating such a provision. RBI itself has taken several measures to infuse liquidity in the system. Even provisions of Insolvency and Bankruptcy Code (IBC) which enable lenders to initiate insolvency proceedings against defaulters are being deferred for 6 months. Fertilizer companies are borrowing heavily because of nonpayment of subsidy dues and deserve better treatment. Therefore, government and RBI should also help the fertilizer industry to ease its liquidity crisis.

Importance of fertilizers in increasing crop productivity is well established. In view of prediction of normal monsoon by IMD, prospects for *kharif* crops are very good this year. According to information of Ministry of Agriculture and Farmers Welfare, area sown in *kharif* season is likely to be more than last year. Therefore, demand for fertilizers will remain buoyant. Moreover, agriculture sector is the only silver lining whereas other segments of economy will take considerable time to tide over the present crisis. Timely availability of agriculture inputs is crucial to realize maximum output in *kharif* season. It will be difficult to meet the demand of fertilizers in time without full domestic production. Therefore, government should work out a financial package for domestic fertilizer industry which can help it to operate at full capacity.

The package inter alia should include one-time provision of Rs. 40,000 crore to clear the backlog which is being carried forward from one year to another. This is in addition to allocation of Rs. 71,309 crore made in budget for the year 2020-21. Till sufficient funds are allocated, government should also make standing arrangements with banks for borrowings against subsidy receivables. Government should provide letter of comfort to the banks. The interest on such borrowings should be borne by the government from the date of submission of bills. This will help the industry in getting loans against subsidy receivables very quickly at reasonable rate of interest since there will be no risk for the banks. It should also be applicable to the present outstanding dues. Government has issued clarification recently regarding implementation of Modified NPS III for urea. It should now update the fertilizer management system to permit the fertilizer companies to raise the bills for differential fixed cost and vintage allowance.

This editorial has focused on payment of subsidy arrears as determined by present policies and easing liquidity pressure on the industry. However, the present crisis highlights the need for complete overhaul of policies for the sector in the larger interest of Indian agriculture and farmers. We will cover the issue of policy reforms in future editorials.

The bottom line is that the government should extend helping hand and meet its obligation to the fertilizer industry in the interest of viability of domestic production and timely availability of fertilizers to the farmers. ■