Frank Notes

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Fertilizer Sector during 2019-20

The fertilizer sector in 2019-20 was driven by healthy growth in fertilizer consumption supported by exceedingly good weather and adequate availability of fertilizers from increased domestic production and imports. This resulted in record foodgrain production of 296.7 million metric tonne (million MT). However, industry continued to face various issues on policy front. These *inter-alia* include inadequate budget provision and payment delays under DBT, reduction in energy consumption norms of urea units, issue of minimum fixed cost for urea units and freight subsidy for SSP at par with other P&K fertilizers. There are also GST issues mainly related to input tax credit and refunds. Outbreak of COVID 19 pandemic during later part of the year caused some difficulties in supply chain. But timely action taken by the government ensured that there was no disruption in supply of fertilizers to the farmers. The details of developments in fertilizer sector in 2019-20 are presented in the following paragraphs.

To begin with weather, southwest monsoon 2019 started with deficit rains in June followed by incessant rains during July to September. Overall rainfall during the monsoon season was 10% above long period average (LPA). Thirty one out of a total number of 36 meteorological sub-divisions received normal to excess rains. Nearly 13 states were affected by floods/ flood like situation due to heavy rainfall affecting fertilizer use and crops. Rainfall during post-monsoon was also 29% above LPA.

Water level in major reservoirs was higher than the previous year as well as normal storage at the end of *kharif* season. Live storage in 120 major reservoirs was 151.09 billion cubic meter (BCM) on 3rd October, 2019 as against 128.60 BCM on the corresponding date in the previous year.

Overall good rains and higher fertilizer consumption facilitated higher coverage of area under various crops. Food grains production touched a record level of 296.7 million MT in 2019-20 as against 285.2 million MT in the previous year. Except sugarcane, all other crops showed increase in production.

Fertilizer consumption recorded a healthy growth of 6.7% in 2019-20 after experiencing low growth in preceding two years. Total nutrient consumption was 29.04 million MT in 2019-20 as against 27.23 million MT in the previous year. Per hectare use of total nutrients increased to 144.9 kg in 2019-20 from 135.9 kg in 2018-19. NPK use ratio was 7.0:2.8:1 in 2019-20.

Availability of fertilizers from opening inventory, indigenous production and imports was adequate to meet surge in demand for fertilizers in 2019-20. Opening inventory of fertilizer products was about 5.2 million MT products in all channels except with dealers at the beginning of *kharif* 2019.

Total indigenous production of all fertilizers was about 42.7 million MT during 2019-20, of which urea accounted for 24.5 million MT, DAP 4.6 million MT, SSP 4.2 million MT, NP/ NPKs 8.7 million MT and balance quantity comprised ammonium sulphate and ammonium chloride. During 2019-20, production of urea increased by 2.3%, DAP by 16.7% and SSP by 4.1%, respectively, over 2018-19. However, production of NP/NPKs fell by 3.5% during the period.

Production of gas from existing fields has been falling for more than five years. Hence, supply of domestic gas to fertilizer plants has been declining. Supply of domestic gas declined further from 15.4 MMSCMD in 2018-19 to 12.8 MMSCMD in 2019-20. It constituted only 29.8% of total average of 43 MMSCMD gas consumed during the year. This has made fertilizer plants more and more dependent on imported LNG. During 2019-20, share of LNG supplied to fertilizer plants was 70.2%.

Among three naphtha based plants, MFL-Manali changed feedstock for ammonia plant to natural gas during 2019-20. This has been possible due to availability of imported gas with commissioning of Ennore LNG terminal of Indian Oil Corporation. Remaining two ammonia-urea plants based on naphtha as feedstock are still awaiting pipeline connectivity which has been delayed by several years.

Urea production could have been higher in 2019-20 but for production loss of more than one million MT in two urea plants mainly due to liquidity problem. Some other plants also suffered loss of production due to equipment related problems. Capacity utilization of phosphatic and complex fertilizer plants continues to remain low. This sector faces problems due to policy which gives same level of subsidy to imports as well as domestic production. Second, there is same level of import duty on major inputs like ammonia and phosphoric acid and finished products like DAP. Thus industry is denied level playing field. Domestic industry also faces unfair competition from foreign suppliers of raw materials and finished products.

Production of fertilizers was also affected in number of plants due to lockdown in last week of March. There were problems in evacuation/transportation of finished fertilizers from the plants resulted in high inventory buildup at some plant locations in first few weeks of lockdown. A few plants also faced problem of availability of manpower, chemicals and bags. But these issues were addressed by the government and near normalcy was restored very promptly. Industry on its part maintained operations and despatch of fertilizers without compromising on safety of manpower.

It is expected that recommendations of the five Working Groups of Chintin Shivir will result in positive changes in the policies for the sector which will benefit Indian agriculture, farmers and encourage domestic production.

Import of urea at 9.12 million MT during 2019-20 recorded sharp increase of 21.9% over 2018-19. Similarly, import of NP/NPKs at 0.75 million MT increased by 36.6% during the period. However, import of DAP at 4.87 million MT and MOP at 3.67 million MT declined by 26.2% and 12.9%, respectively, during the period.

Fertilizer industry continued to face severe challenges of ever mounting unpaid subsidy dues. The year 2019-20 started with outstanding dues of more than Rs.39,000 crore carried forward from the previous year. Budget allocation for the year at Rs.79,996 crore was grossly inadequate to meet the requirement of the year including backlog of previous year. The year ended with an unpaid subsidy due of Rs.47,949 crore inspite of a banking arrangement (loan) of Rs.10,000 crore at the end of the year.

There were positive developments in urea policy at the end of the year. Implementation of Modified NPS-III 2014 policy was pending for more than five years. Modified NPS-III policy was notified finally on 30th March, 2020 with removal of the Clause 3.2 pertaining to minimum fixed cost. The removal of the Clause 3.2 has impacted three units adversely and also affected production of urea beyond reassessed capacity (RAC) for all units.

Unreasonable reduction in energy consumption norms has been affecting the financial health of the industry over the years. The government implemented 2018 norms for 11 efficient gas based urea units *w.e.f.* 1st April, 2018. Annual impact of this reduction on the industry was about Rs.670 crore at 2019-20 energy rates. For remaining 14 gas based units, implementation of revised energy norms were extended in phases upto 30th September, 2020. Revised energy consumption norms for these 14 plants will now be applicable *w.e.f.* 1st October, 2020. These units will lose more than Rs.1200 crore per year based on current energy prices. There is no provision in policy for providing for servicing the capital investment made / being made in energy saving projects.

In regard to GST, there are a number of pending issues needed to be addressed by the government. These *inter-alia* include i) refund of unutilized input tax credit with respect to input services and ii) reduction in GST rate for ammonia, sulphuric acid, packing materials and coastal shipping. Other GST related issues include levy of IGST on Ocean freight on imported fertilizers and GST on freight on fertilizers sold on FOR basis resulting in double taxation.

Having reviewed the performance and development of fertilizer sector for 2019-20, let us examine the prospects of the fertilizer sector for 2020-21.

As regards weather, the southwest monsoon arrived on time in Kerala on 1st June, 2020. Rainfall performance from 1st June to 21st September was 107% of LPA. Out of 36 meteorological sub-divisions, 32 sub-divisions received normal to excess rains and remaining 4 sub-divisions received deficient rains during the period. Out of 685 reported districts, 74% districts received normal to excess rains during the period.

Total live storage capacity in 123 reservoirs as on 17th September, 2020 was 100.3% of the last year and 116% of the normal storage.

Total area sown under all *kharif* crops was 111.4 million hectares (Mha) upto 18th September, 2020 as compared to 105.4 million ha during the corresponding period in the previous year. About 104.3 per cent of the normal area has been sown during the period. The coverage upto 18th September, 2020 was 5.7% higher than the corresponding period in the previous year.

Fertilizer demand grew exceptionally high during April/ August 2020 over April/August 2019. Sale of urea at 15.52 million MT during April/August 2020 increased by 24.7% over April/August 2019. Similarly, sale of DAP at 4.63 million MT, increased by 57.6% and NP/NPKs at 5.10 million MT rose by 53.7% during the period. Sale of MOP (for direct application) at 1.29 million MT and SSP at 2.15 million MT increased by 42.8% and 13.1%, respectively, during the period. Keeping in view higher anticipated consumption in *kharif* 2020 and adequate water storage in the reservoirs at the beginning of *rabi* 2020-21 with moisture availability in the soil, overall consumption of fertilizer nutrients during the full year 2020-21 is expected to show a fairly good increase over the previous year's level.

The increased demand is being fulfilled from the opening inventory, domestic production and imports. Domestic production of urea at 10.42 million MT and SSP at 2.06 million MT during April-August 2020 increased by 7.2% and 13.1% , respectively over April-August 2019. However, production of DAP at 1.58 million MT and NP/NPKs 3.50 million MT declined by 13.5% and 0.3% during the period. Shortfall in production of DAP and NP/NPKs was offset through increased imports. In fact, except MOP, imports of all other major fertilizers showed increase during the period. Import of urea, DAP and NP/NPKs increased by 8.4%, 16.4% and 104%, respectively during April-August 2020 over April-August 2019. However, import of MOP declined by 9.1% during the period.

The policies for the fertilizer sector were actively discussed by the five Working Groups set up by the Department of Fertilizers under Chintan Shivir. The Working Groups covered all aspects of the sector including but not limited to balanced fertilizers, new and innovative products, pricing and subsidy policies, coastal shipping as viable alternative for movement of fertilizers and legal framework for the sector. It is expected that recommendations of the Groups will result in positive changes in the policies for the sector which will benefit Indian agriculture, farmers and encourage domestic production.

The performance of fertilizer sector in 2019-20 and prospects for 2020-21 are given in the *Annual Review of Fertilizer Production and Consumption 2019-20* which is being published in the current issue of Indian Journal of Fertilisers. ■