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## Performance of Fertilizer Sector during 2018-19

part of the year on account of financial constraints. Some additional contribution came from a new brown field plant commissioned in January 2019. DAP production was affected due to availability and volatility in international prices of raw materials.

Supply of gas from existing fields has been falling over last five years. Domestic gas supply declined from 31.5 MMSCMD (million standard cubic meters per day) in 2013 to 15.4 MMSCMD in 2018-19. The shortfall in availability of gas from domestic sources was fulfilled through high cost imported LNG. Imported gas being more expensive than domestic gas, the cost of production of urea has been increasing over the years. Farmers' price i.e. MRP remaining fixed, it increases the urea subsidy.

Lower production of indigenous fertilizers was made up by significantly higher imports. Import of Urea, DAP and NP/NPKs increased by 24.7, 56.6 and 9.4%, respectively, in 2018-19 over 2017-18. MOP import was, however, down by about 11% during the period.

Fertilizer nutrient consumption ( $N+P_2O_5+K_2O$ ) recorded a modest growth of 2.6 per cent over the previous year. Increased consumption was noticed in most of the states which received normal to excess rains. A moderate growth in consumption of nitrogen added by a marginal growth in consumption of phosphate led to the net increase in consumption of total nutrients. Consumption of potash fell during the year. Lower level of subsidy, high international prices and weakening of rupee against dollar affected farmers' price of potash more adversely and thereby impacted the consumption. Consequently, all-India NPK use ratio further widened from 6.1:2.5:1 during 2017-18 to 7.1:2.7:1 during 2018-19. Per hectare use of total nutrients ( $N+P_2O_5+K_2O$ ) increased from 133.9 kg in 2017-18 to 137.4 kg in 2018-19.

On the policy front, fertilizer industry continued to face numerous issues and challenges. Indian urea industry continued to suffer during the year due to unfavourable policies. These *inter-alia* included non-payment of increased fixed cost as per notified Modified NPS-III policy, non-recognition of further increase in fixed cost beyond Modified NPS-III levels and unreasonable reduction in energy consumption norms under NUP-2015. Additional production beyond re-assessed capacity also turned unviable due to non-implementation of minimum fixed cost as per Modified NPS-III Policy.

There were inordinate delays in payment of subsidy under DBT. Payments which were due prior to implementation of DBT also not settled. Payments due to escalation in cost of natural gas amounting to more

The performance of the fertilizer sector in 2018-19 was characterized by a situation of comfortable availability, increased fertilizer use despite below normal rains, lower domestic production supplemented by higher imports, continued shortfall in domestic gas availability fulfilled through high cost LNG, unfavourable pricing policies, payment delays under DBT and residual issues relating to GST.

Water level in major reservoirs improved during major part of *kharif* 2018 despite changing pattern of weather and rainfall below normal level. Overall rainfall during south-west monsoon was below normal (-9%). Twenty four out of a total of thirty six Meteorological sub-divisions received normal rainfall during the season. In terms of area, sixty-two per cent of the total number of districts received normal to excess rains. Live storage in 91 major reservoirs was 113 per cent of the previous year's level and 104 per cent of the normal storage.

Crop acreage and production were marginally lower during both *kharif* and *rabi* seasons. As per the 4<sup>th</sup> Advance Estimates released by the Ministry of Agriculture and Farmers Welfare, foodgrains production in 2018-19 touched 284.95 million tonnes, close to the level of 285 million tonnes achieved in 2017-18. While production of oilseeds stood at the previous year's level, sugarcane showed a modest increase during the period.

Availability of fertilizers from opening inventory, indigenous production and imports was sufficient to take care of increased demand. Opening inventory at various points excluding dealers' point was about 4 million tonnes. Indigenous production of fertilizer nutrients slipped marginally over the previous year by about 1.2%. Despite increase in production of NP/NPKs and SSP, fall in production of urea and steep decline in production of DAP led to net reduction in production of fertilizer nutrients. Urea production fell due to two urea plants remaining closed in major

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than Rs.10,000 crore were also not made by the end of financial year 2018-19. Thus, urea units faced serious financial constraints and increase in financing cost of working capital. All the above factors affected urea production so much that it registered a negative growth during the year. The delay in payment of subsidy affected P & K fertilizers as well. Further, there has been no clear definition of reasonableness of MRP of P & K fertilizers for all these years. Department of Fertilizers finally constituted a Committee recently to study the reasonableness of MRP of P&K fertilizers and give recommendations for developing reasonableness evaluation methodology.

The SSP industry has also been facing hardship in arranging working capital due to non-payment of balance subsidy prior to DBT regime. Some of the State Governments had not certified the quantity and quality of SSP. Also the policy of deemed certification in 30 days for quantity and 180 days for quality was not being adhered to while processing the claims of SSP units for subsidy payments.

SSP manufacturers also raised the issue of separate subsidy budget for SSP industry, payment of freight subsidy like for other fertilizers, reduction in GST on sulphuric acid, flexibility in procurement of rock phosphate, etc. Department of Fertilizers constituted a Committee to consider and make recommendations on the issues of the requirement of pre-analysis of Egyptian rock phosphate for production of SSP and the request of SSP industry to allow them freight subsidy at par with P&K industry.

In regard to GST, as a result of persistent follow up by the FAI at various levels in the government, the rate of GST on fertilizer grade phosphoric acid was finally reduced to 5% w.e.f July 2018. This provided some relief to the phosphatic fertilizer units. Earlier due to follow up by FAI had resulted in reduction of GST for finished fertilizers, sulphur, imported urea and MOP used for manufacture of complex fertilizers to 5% .

There are other GST related issues of the fertilizer sector. These *inter-alia* include refund of unutilized input tax credit (ITC) in respect of both input and input services under the inverted duty structure, refund of unutilized ITC arising due to exemption of fertilizer subsidy from levy of GST; reduction in GST rate for movement of fertilizer through multi-modal transport to 5% to bring it at par with freight cost of fertilizers by rail.

Having reviewed the performance and development of fertilizer sector for 2018-19, let us examine the prospects of the fertilizer sector for 2019-20.

South-west monsoon 2019 was delayed by a week. There was large deficit in rainfall of about 36 per cent of LPA during June 2019 delaying sowing of *kharif* crops in several parts of the country. The situation improved considerably from mid-July 2019. During July 2019, rainfall was 9 per cent above LPA. During August 2019, it was 15 per cent above LPA. Overall rainfall from 1<sup>st</sup> June to end August 2019, was equivalent to Long Period Average (LPA).

Live storage in 107 reservoirs was quite comfortable. As on 14<sup>th</sup> August, 2019, it was 125 per cent of last year's storage and nearly 122 per cent of normal storage.

As regards *kharif* sowing, about 87 per cent of the normal area of full *kharif* season has been sown upto 16<sup>th</sup> August, 2019. Total area sown under all *kharif* crops has been reported at 92.61 million hectares at All-India level during 1<sup>st</sup> April to 16<sup>th</sup> August, 2019 as compared to 96.64 million hectares in the corresponding period of last year. This represents a fall of 4.2%.

Data of sale of fertilizers are available upto July 2019 which do not reflect the impact of exceedingly good rains received since mid-July 2019. Sale of major fertilizers during April-July 2019 was lower than the previous year. Sale of urea at 7.77 million MT, DAP at 2.08 million MT, NP/NPKs at 2.02 million MT and MOP (for direct application) at 0.63 million MT during April-July 2019 registered decline of 6.6, 9.4, 23.5 and 17.4 per cent, respectively, over April/July 2018. The growth in fertilizer consumption is expected to turn around during the subsequent period of the current *kharif* due to good rains received in major part of the country since mid-July, 2019. However, the areas affected by floods may still have muted growth in consumption.

Good rains in later part of monsoon season offer prospect of adequate water storage in the reservoirs at the beginning of *rabi* 2019-20 and sufficient moisture availability in the soil. Therefore, overall consumption of fertilizer nutrients during the full year 2019-20 is expected to show a modest growth of 2-3 per cent over the previous year's level.

Details of all aspects of performance of fertilizer sector are given in the *Annual Review of Fertiliser Production and Consumption 2018-19* which is being published in the current issue of Indian Journal of Fertilisers. ■