

Fertilizer Sector Performance during 2021-22

Frank Notes



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The year 2021-22 marked a beginning with adequate inventory of fertilizers in different distribution channels. Weather was normal during monsoon period though there were issues of distribution and timing of rains in some areas. Sown area under *kharif* crops was marginally lower but in *rabi*, it was higher than previous year. Production of fertilizers was marginally up. Import and sale of fertilizers declined during the year. There was significant increase in international prices of fertilizers and raw materials & intermediates used for manufacturing of fertilizers. However, both government and industry spared no efforts in arranging supplies of fertilizers in every nook and corner of the country. Government of India also increased subsidy on fertilizers so that farmers remain unaffected from the skyrocketing prices of fertilizers. The highlights of developments in fertilizer sector in 2021-22 with prospects for 2022-23 are presented.

To begin with weather, Southwest monsoon during the past three consecutive years has been very good. Southwest monsoon arrived over Kerala coast on 3rd June, 2021 after a delay of two days. Overall rainfall during Southwest monsoon was normal at 99% of long period average (LPA). But there were inter-month variations in the distribution of rainfall. Out of 36 meteorological sub-divisions, 30 sub-divisions received normal to excess rains and remaining 6 sub-divisions received deficient rains during the period. Water storage position in major reservoirs was comfortable in 2021. During post-monsoon 2021, rainfall was 44% higher than the LPA for the country as a whole. Out of 36 meteorological sub-divisions, 31 received normal to excess rains during the period. Remaining 5 sub-divisions received the deficient rainfall.

Food grains production is estimated to increase from 310.7 million MT in 2020-21 to 315.7 million MT in 2021-22 representing an increase of 1.6%. Except wheat and coarse cereals, other major crops showed increase in production.

Availability of fertilizers from opening inventory, indigenous production and imports was adequate to meet the demand for fertilizers in 2021-22. Total

indigenous production of all fertilizers at 43.74 million MT during 2021-22 registered a marginal increase of 0.6% over 2020-21. Production of urea at 25.08 million MT, DAP at 4.22 million MT and SSP at 5.35 million MT during 2021-22 marked increase of 1.9%, 11.9% and 8.9%, respectively, over 2020-21. However, production of NP/NPK complex fertilizers at 8.31 million MT witnessed a decline of 10.9% during the period. Urea production could have been higher in 2021-22 but several factors limited the production. A few urea units suffered loss of production due to equipment problems, prolonged maintenance shutdowns and constraint in availability of working capital. It was expected that there would be higher urea production due to additional contribution from two new urea plants but few old plants could not operate well compared to previous year. Production of complex fertilizers suffered due to very high cost and lack of availability of sufficient quantity of imported raw materials. Production could have been higher but for these bottlenecks.

Supply of domestic gas to fertilizer plants has dwindled gradually over the years. This has made fertilizer plants more and more dependent on imported LNG. Supply of domestic gas declined further from 10.2 MMSCMD in 2020-21 to 8.0 MMSCMD in 2021-22. Thus domestic gas constituted only 17.7% of total gas consumed during the year.

Import of urea was 9.14 million MT, DAP at 5.46 million MT, MOP at 2.46 million MT and NP/NPK complex fertilizers at 1.17 million MT during 2021-22, compared to urea at 9.83 million MT, DAP at 4.88 million MT, MOP at 4.23 million MT and NP/NPK complex fertilizers at 1.39 million MT during 2020-21.

Based on sale of fertilizers through point of sale (PoS) machines, consumption of urea at 34.18 million MT, DAP at 9.27 million MT, NP/NPK complex fertilizers at 11.48 million MT and MOP at 2.46 million MT during 2021-22 registered decline of 2.5%, 22.2%, 2.8% and 28.3%, respectively, over 2020-21. However, consumption of SSP at 5.68 million MT recorded an increase of 26.6% during the period. Total consumption of all fertilizer products at 63.94 million MT during 2021-22 showed a decline of 5.4% over 2020-21. The decline in sale of fertilizers was perhaps partially due to high inventory at farmer's level due to panic buying in 2020-21.

Payments of differential in minimum fixed cost resulting after implementation of Modified NPS-III on production beyond re-assessed capacity for the period 2014-15 onwards were cleared during the year. However, policy for minimum fixed cost and updation of fixed cost for urea units remained under consideration of the Government. The Committee on urea policy submitted the Report to Department of Fertilizers (DOF). Major recommendations of the committee include amendments in existing policies like approval of minimum fixed cost and updation of fixed cost and also reforms like implementation of NBS Policy for urea, DBT in true sense and augmenting allocation of domestic natural gas.

Both government and industry spared no efforts in arranging supplies of fertilizers across the country inspite of significant increase in prices of fertilizers and raw materials in the international market.

Budget allocation for 2021-22 was increased significantly to Rs. 1,40,122 crore from the level of original budget estimate of Rs. 79,530 crore. This facilitated timely payment of subsidy to the industry. However, annual escalation due to increase in gas cost for 2020-21 and 2021-22 remained pending for urea units which blocked substantial capital of urea units.

Rates of subsidy under NBS Policy on P content of fertilizers were increased significantly for *kharif* 2021 and *rabi* 2021-22 to insulate farmers from abnormal increase in international prices of fertilizers and raw materials. However, NBS rates for N, K and S remained unchanged at the previous year's level. The need for increasing the MRP or subsidy was rising with continuous increase in international prices. Additional subsidy on DAP and 3 important grades of NP/NPKs were allowed during *rabi* 2021-22. Additional compensation for the suppliers of P&K fertilizers for the losses incurred due to volatile international prices and sharp depreciation in rupee *vis-à-vis* US dollar for the period October, 2021 to March, 2022, is under consideration of the Government.

There have been a few positive developments on GST front. Payment of IGST on Ocean freight on CIF import contracts on reverse charge basis was declared in violation of GST law by the Supreme Court. The formula, for refund of unutilized input tax credit arising due to inverted duty structure, was modified to allow refund in same proportion as the ITC has been utilized for inputs and input services.

As regards weather for 2022-23, onset of Southwest monsoon 2022 was advanced by 3 days. India Meteorological Department forecast normal rainfall during Southwest monsoon season 2022. But, the rainfall in June 2022 was 8% lower than LPA. However, rainfall improved in July and August 2022. The cumulative rainfall during 1st June to 31st August, 2022 was 6% above the LPA. Out of 36 meteorological sub-divisions, 30 constituting 83% of the total area of the country received normal to excess rains. However, Gangetic plains continues to witness deficient rains. As on 31st August, 2022, there was deficiency of 44%, 38%, 29% and 27% over LPA in Uttar Pradesh, Bihar, West Bengal and Jharkhand, respectively.

Uneven distribution of rains during the period has created concerns over adverse impact on *kharif* 2022 crops. The total sown area under all *kharif* crops was 104.51 million hectares (million ha) as on 26th August, 2022 compared to 106.19 million ha during the corresponding period in the previous year. This was 1.6% lower than the corresponding period in the previous year. There is apprehension that this will have adverse impact on rice production.

Indigenous production of urea at 9.12 million MT, DAP at 1.40 million MT and SSP at 1.88 million MT during

April/July 2022 increased by 15.5%, 25.7% and 9.1%, respectively, over April/July 2021. However, production of NP/NPKs at 2.75 million MT witnessed a decline of 6% during the period. Import of urea and NP/NPKs increased by 4.7% and 138.1%, respectively, during the period. However, import of DAP and MOP declined by 37.8% and 6.6%, respectively.

Uneven distribution of monsoon rains and decline in sown area affected demand of some fertilizer products during April/July 2022 over April/July 2021. Sale of urea at 10.42 million MT and DAP at 3.13 million MT during April/July 2022 registered increase of 2.2% and 15.1%, respectively, over April/July 2021. However, sale of NP/NPKs at 2.49 million MT, SSP at 1.82 million MT and MOP (for direct application) at 0.40 million MT witnessed decline of 32.4%, 4.0% and 55.5%, respectively, during the period.

Keeping in view the uneven Southwest monsoon rains this year, there may be uneven growth in consumption of different fertilizers due to lower cropped area for some crops for *kharif* 2022. Overall normal Southwest monsoon is likely to leave good moisture contents in the soil for ensuing *rabi* crop season. Water availability in the reservoirs at the end of *kharif* season is also likely to be comfortable. Continuing increase in international prices of fertilizers and raw materials remains the challenge for availability of fertilizers at reasonable prices. Arranging the increased demand of fertilizers will remain a task both for industry and the government. Industry is making all efforts to maximize production. To enhance the supply of fertilizers, Government facilitated bilateral contracts with foreign companies for supply of fertilizers and fertilizer raw materials. This will help to maximize domestic production and fill the gap between demand and indigenous production.

The Budget Estimate for 2022-23 is Rs.1,05,222.32 crore against the revised estimate for 2021-22 of Rs.1,40,122.32 crore. This amount was inadequate, in view of continuing steep rise in international prices of fertilizers and raw materials. However, the Government took timely steps in assessing the situation and has announced additional provision of Rs.1,10,000 crore in May 2022. With this, the total provision for fertilizer subsidy for 2022-23 comes to Rs.2,15,222 crore. The Government has been successively providing additional allocations for last three years to protect the farmers from high international prices of fertilizers. The international prices of finished fertilizers and raw materials continued to rule high due to Russia-Ukraine crisis. To keep the P&K fertilizer prices affordable to the farmers, DOF enhanced the rates of subsidy under NBS policy. Revised rates are Rs. 91.96, Rs.72.74, Rs.25.31 and Rs.6.94 per kg for N, P, K and S, respectively, for *kharif* 2022. However, subsidy for SSP was kept at the previous level.

The *Annual Review of Fertiliser Production and Consumption 2021-22* is being published in this issue. This is also a marketing special issue and includes 9 papers covering important areas of fertilizer marketing and logistics. It is hoped that all those concerned with fertilizer and agriculture sectors will find the content of the special issue with Annual Review relevant and useful.