



INDIAN FERTILISER INDUSTRY

**Special additional package for DAP
to tackle margin pressures amid
growing availability challenges**

OCTOBER 2024





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The nutrient-based subsidy (NBS) rates notified for FY2025 translated into continued pressure on profitability for di-ammonium phosphate (DAP), while the same for other grades of NPKs witnessed an improvement. This resulted in lower imports of DAP, thereby exerting pressure on its systemic inventory levels. Thus, Gol offered a special package of Rs. 3500/MT to reimburse some of the costs to make DAP profitable. However, with the recent increases in import prices, DAP is likely to remain a loss-making proposition. Profitability for urea players, on the other hand, is expected to remain steady. Overall, subsidy allocation is expected to largely remain adequate for FY2025 and the release of the same has been timely.



- **The Government of India (Gol) revised the nutrient based subsidy (NBS) rates for FY2025.** The revised NBS rates translate into higher subsidies for nearly all fertiliser grades. However, despite improved profitability for other NPK (nitrogen (N), phosphorus (P) and potassium (K)) grades, di-ammonium phosphate (DAP) continues to face profitability challenges.
- **The systemic inventory for di-ammonium phosphate (DAP) has been low, which can cause availability issues; while for other fertilisers, it remains at comfortable levels.** The profitability of DAP is under pressure, which has resulted in lower imports, leading to lower inventory levels.
- **Special package offered for DAP.** To improve DAP's availability, the Gol has offered additional Rs. 3500/MT for DAP to cover costs from port/factory gate to farm gate, which is w.e.f. Apr 2024 to Dec 2024. This would result in positive contribution margins retrospectively for H1 FY2025, however, with increase in DAP prices recently, contribution margins have again turned negative.
- **Muriate of potash (MOP) continues to remain profit-making.** Given the decline in international prices, MOP continues to remain profit-making at current retail prices and subsidy levels
- **The pooled gas prices remain largely steady.** Gas costs remain a pass-through for urea players. Since pooled gas prices have remained stable, the profitability of urea players is expected to remain steady.
- **The Gol made a budgetary allocation of Rs. 1.64 trillion towards fertiliser subsidy for FY2025,** including Rs. 1.19 trillion for urea and Rs. 0.45 trillion as NBS, which is likely to be largely adequate. The overall subsidy pay-outs have remained timely, keeping the working capital intensity of the industry under check. ICRA also expects the Gol to make additional allocations if the need arises.

Subsidy rate revision; slight increase for almost all products for H2 FY2025

Exhibit: NBS rates

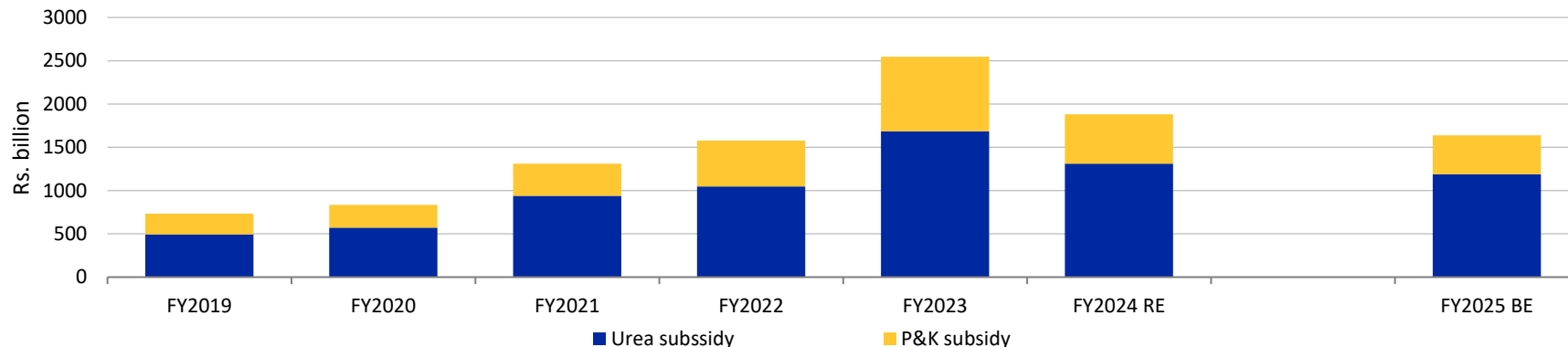
Rs./MT	FY21	May-21 to Sep-21	Oct-21 onwards*	H1 FY2023	Q3 FY2023	Q4 FY2023	H1 FY2024	H2 FY2024	H1 FY2025	H2 FY2025
N	18,789	18,789	18,789	91,960	98,020	99,270	76,490	47,020	47,020	43,020
P	14,888	45,323	45,323	72,740	66,930	49,940	41,030	20,820	28,720	30,800
K	10,116	10,116	10,116	25,310	23,650	25,700	15,910	2,380	2,380	2,380
S	2,374	2,374	2,374	6,940	6,120	2,840	2,800	1,890	1,890	1,760
Product Subsidy										
DAP (18:46:0)	10,231	24,231	32,991	50,103	48,431	40,841	32,641	22,541	21,675	21,911
NPK 20:20:0:13	7,044	15,154	17,154	33,842	33,786	30,211	23,868	13,814	15,394	14,993
NPK 10:26:26	8,380	16,293	18,293	34,690	33,353	29,593	22,453	10,734	12,788	12,928
NPK 12:32:16	8,637	18,377	20,377	38,362	36,964	32,005	24,854	12,686	15,214	15,399
MOP	6,070	6,070	6,070	15,186	14,190	15,420	9,547	1,428	1,428	1,427
SSP	2,766	7,513	7,513	7,513	7,513	7,513	7,513	3,540	4,804	5,121

Source: DoF, ICRA Research; *NBS rates were kept unchanged; although additional Rs. 438/50 kg bag of DAP and Rs. 2,000/MT for NPK fertilisers was provided by GoI; ** including Rs. 4,500/MT as special package

- For the recently announced NBS rates for the rabi season of FY2025, the subsidy rates have been increased for P, while the same have moderated for N and thus, barring a few products, all the other products have seen some increase in the subsidy rates, which will provide some impetus to the profitability of these products.

FY2025 budgetary allocation likely to be largely adequate at current prices

Exhibit: Trend in subsidy budget

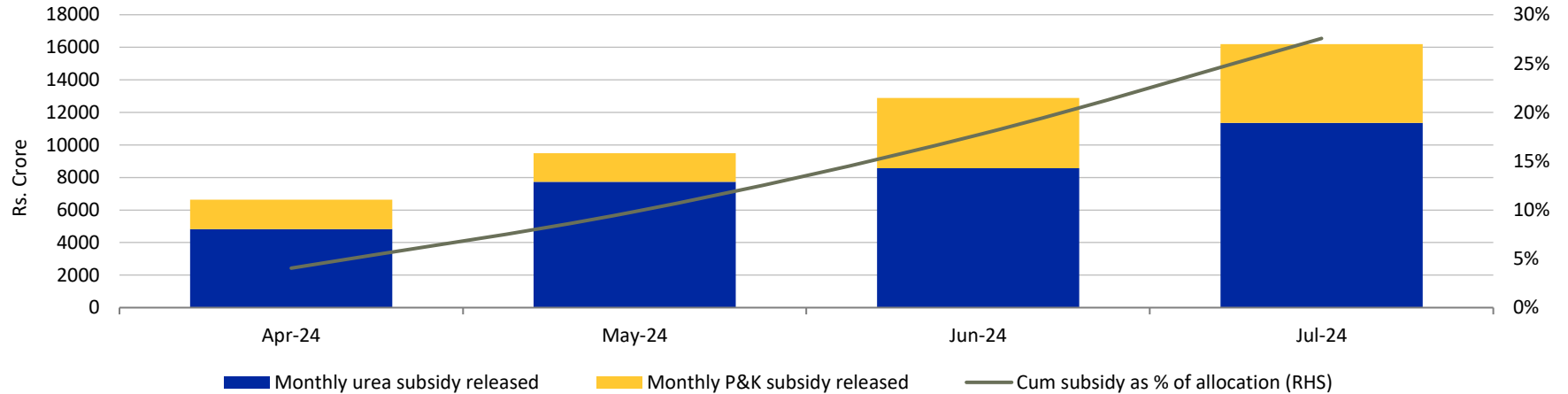


Source: DoF, ICRA Research

- The total subsidy pay-out for FY2024 was around Rs. 1.95 trillion, which was largely in line with revised estimates for FY2024.
- The GoI has made a budgetary allocation of Rs. 1.64 trillion towards fertiliser subsidy for FY2025, including Rs. 1.19 trillion for urea and Rs. 0.45 trillion as NBS, which is likely to be adequate at current prices of raw material and finished fertilisers. For NPK fertilisers, the Government had announced subsidy worth Rs. 0.24 trillion for kharif of 2024 and has now announced a subsidy of around Rs. 0.24 trillion for rabi of 2024, taking the total amount slightly higher than Rs. 0.45 trillion, budgeted for this segment.
- Moreover, ICRA anticipates the GoI to make additional allocation to ensure timely subsidy payments, if required.

Subsidy inflow remains steady in 4M FY2025

Exhibit: Trend in subsidy release in 4M FY2025

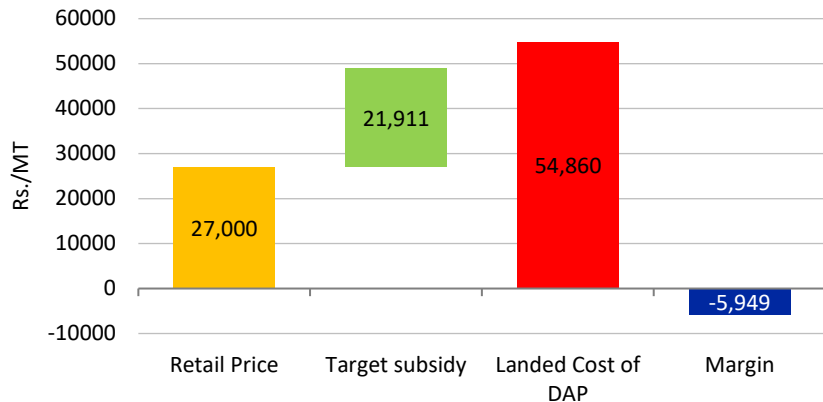


Source: DoF, ICRA Research

- Subsidy pay-out remains largely timely in 4M FY2025, which has kept the debt levels and interest costs for the fertiliser companies under check. The subsidy receivables from the GoI are around 3-4 weeks as of now.

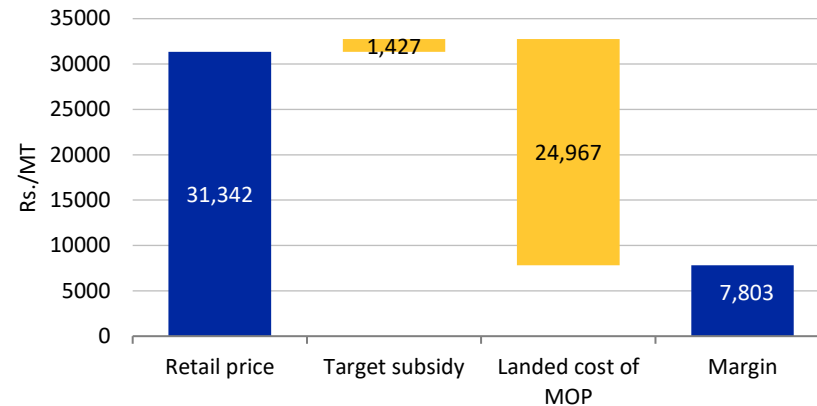
Rabi NBS rate revision keeps DAP margins negative for importers

Exhibit: Current level of subsidy and retail price to keep DAP margins under pressure in upcoming kharif season



Source: DoF, ICRA Research
 1\$= Rs. 83.5; DAP= \$637 plus handling charges; subsidy excluding the special package

Exhibit: Current level of subsidy and retail price to keep MOP margins healthy in upcoming kharif season

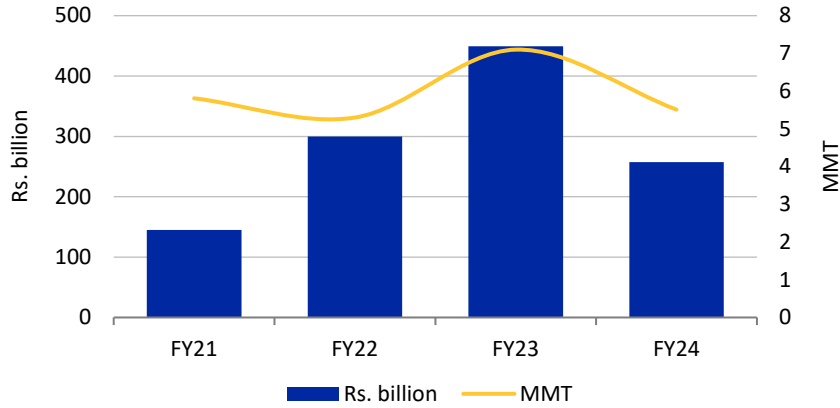


Source DoF, ICRA Research
 1\$= Rs. 83.5; MOP= \$279 plus handling charges

- Over the last few quarters, the NBS rates and retail prices have not been adequate to cover the import costs and thus, the profitability of DAP has remained under pressure. The DAP basic subsidy has been increased by 1% to Rs. 21,911/MT for H2 FY2025 and yet DAP has been loss-making.
- MOP, on the other hand, remains profitable even after some downward MRP revision.
- For other NPKs, there has been an increase in subsidy and thus, some NPK grades are likely to continue to generate comfortable profitability levels.

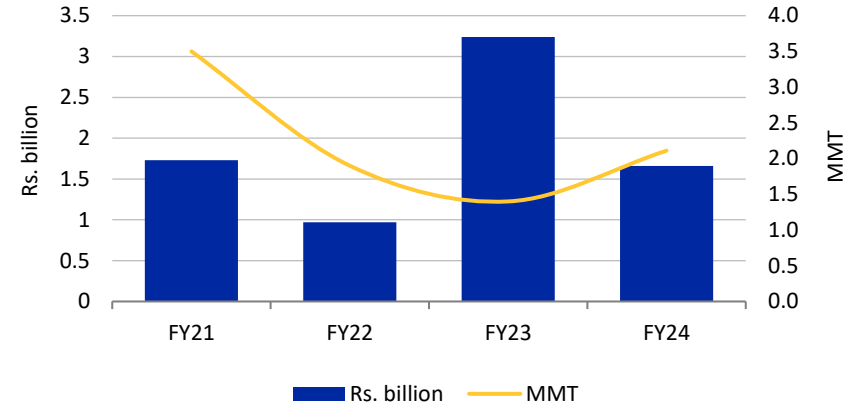
DAP import volumes witness moderation amid margin pressure

Exhibit: Trend in DAP imports



Source: DoF, DoC, ICRA Research

Exhibit: Trend in MOP imports

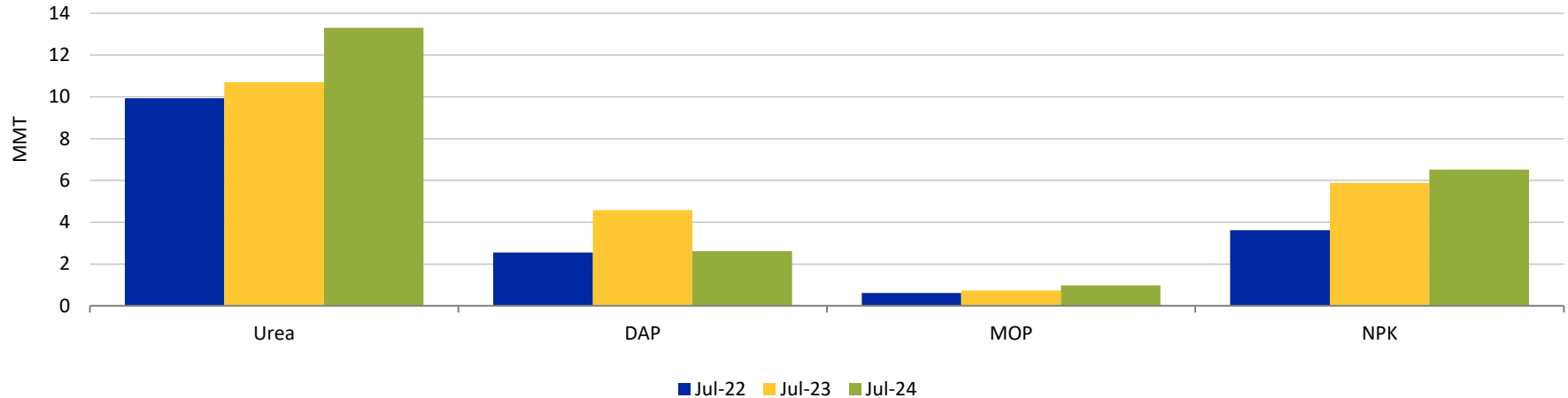


Source: DoF, DoC, ICRA Research

- DAP import volumes witnessed moderation in FY2024 amid high cost in the international market and inadequate margins for importers.
- To ensure availability, some companies continued to import DAP on Department of Fertilisers' assurance to address the price adversity beyond NBS rates to ensure a no-profit-no-loss situation for these importers.
- The MOP imports witnessed some growth in FY2024 due to better availability in international markets and lower import cost.

Systemic inventory improved for all products except DAP

Exhibit: Trend in fertiliser stock availability in India

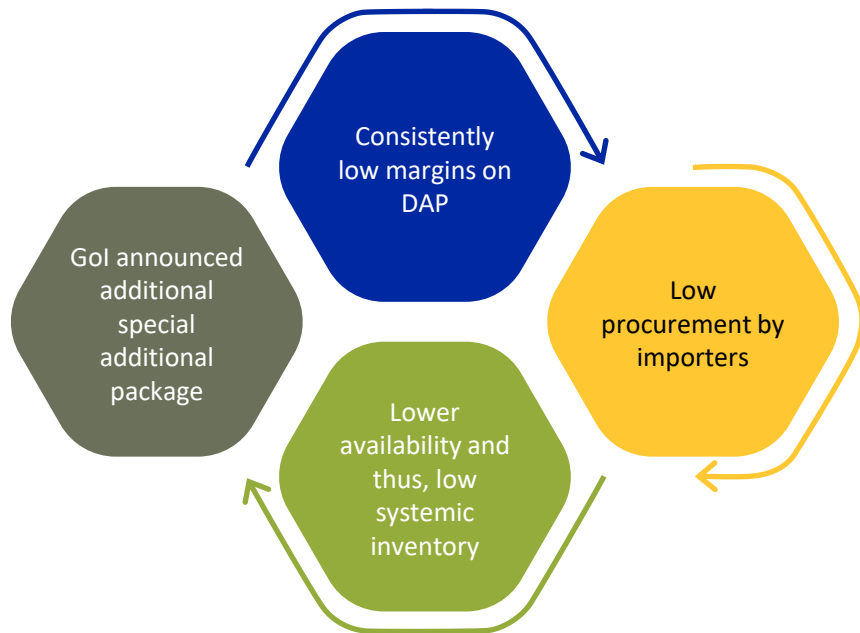


Source: DoF, ICRA Research




- With the steep rise in international prices and constrained availability in the global market, the systemic inventory for fertilisers declined to multi-year lows in FY2022. However, the inventory levels since then have been on an improving trend.
- DAP has remained loss-making for the fertiliser companies and thus, in the absence of any committed assurance from the GoI on compensating this loss, the non-PSU fertiliser companies curtailed their DAP imports, thereby resulting in reduction in the inventory levels in the current calendar year.

Special package offered for DAP to improve the inventory levels

Why this package was offered



Salient features of package

-  GOI approved Rs. 3500/MT as a special packaged on DAP, over and above NBS scheme from Apr 2024 to Dec 2024
-  This package covers actual expenses from port/factory gate to farm gate and excludes manufacturing costs, CFR and customs duty
-  DoF started releasing interim payment of Rs. 3000/MT; the balance Rs. 500/MT will be done post submission of audited actual bills of costs

The implementation of this package will result in an additional outgo of around Rs. 30-40 billion for the Gol.

Special package offered for DAP to keep DAP margins under pressure



Retail Price

Rs. 27,000 / MT



Subsidy

Rs. 21,911 / MT



Loss

-Rs. 5,949 / MT



Additional Package

Rs. 3,500 / MT



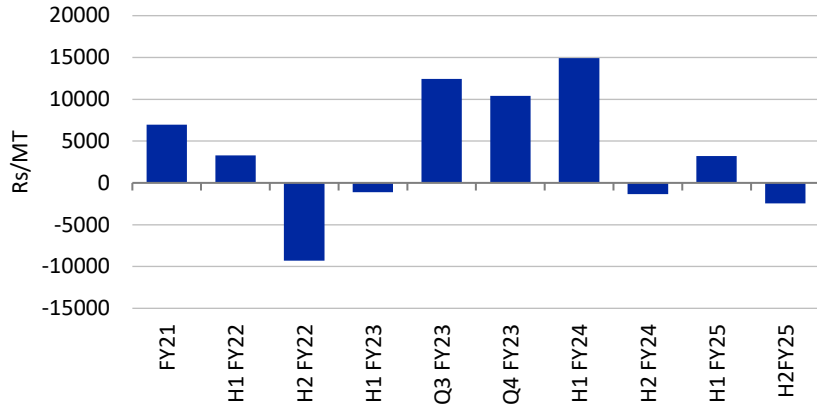
Net Contribution

-Rs. 2,449 / MT

All calculations at current DAP price of \$637/MT (plus incidental charges), which was the latest import price by Indian companies

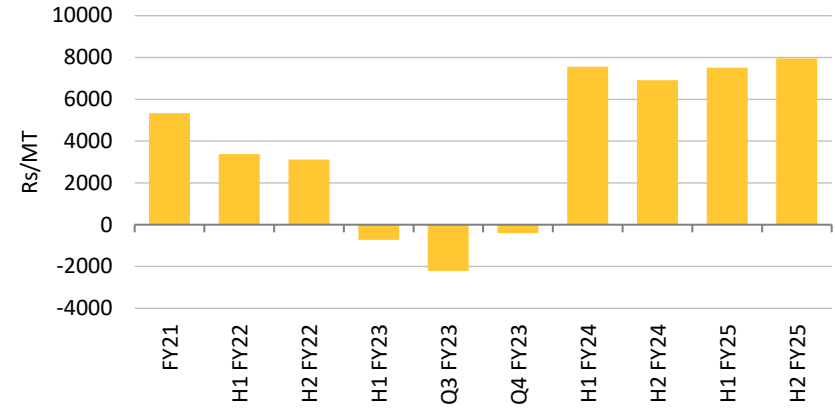
Special package will aid in the profitability in H1; DAP to face losses in H2

Exhibit: Trend in DAP contribution margins (after special package)



Source: DoF, ICRA Research

Exhibit: Trend in MOP contribution margins

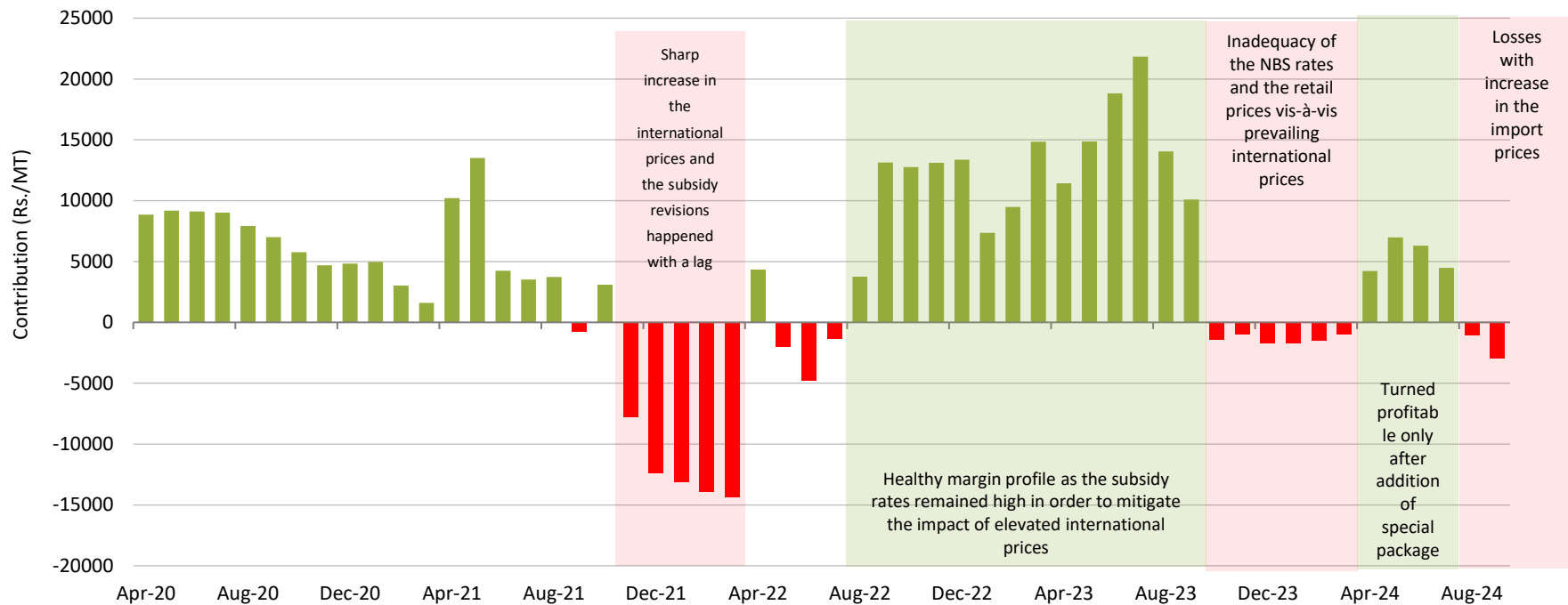


Source: DoF, ICRA Research

- Assuming the importers get the entire additional package for DAP, the contribution margins for DAP are likely to be positive for H1 FY2025.
- However, since then, the international prices have increased and the contribution margins for DAP for H2 FY2025 are likely to turn negative, even after considering the special package, if these prices were to continue to remain elevated.
- For MOP, importers continue to earn healthy profit margins, owing to the moderated international market prices along with sufficient subsidy and MRP.
- For other NPKs, the marginal upward revision in subsidy is likely to result in consequent improvement in margins.

Rising import prices to keep DAP margins negative, even after the special package

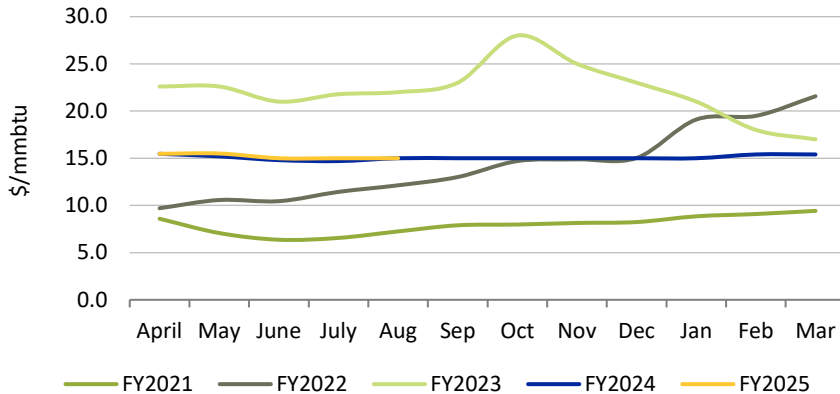
Exhibit: Trend in DAP contribution margins



Source: DoF, ICRA Research

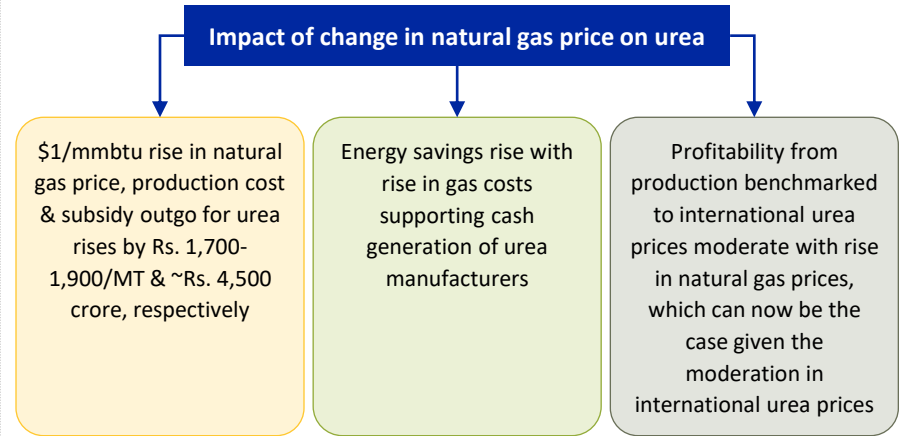
Pooled gas price for urea remain steady leading to stable profitability

Exhibit: Trend in pooled price for urea manufacturers



Source: Bloomberg, Department of Fertilisers, ICRA Research






Exhibit: Impact of natural gas price change on urea sector



- Pooled gas prices have remained steady over the last few quarters at around \$15-17/mmbtu, after reaching a peak of \$27-28/mmbtu in September-October 2022.
- Gas cost is a pass-through for urea players, and higher gas costs lead to higher energy savings for energy-efficient plants and thus better profitability; albeit at higher working capital requirements and higher subsidy requirement from the GoI.
- However, elevated pooled gas prices, along with moderation in international urea prices, can constrain the profitability for IPP-benchmarked production.



FY2025 Outlook – Stable

Fertiliser Sales Volumes	International Prices	Operating Margins	Debtor Days	Interest Coverage
				
<p>1-3% YoY growth in FY2025</p> <p>The fertiliser sales volumes are expected to grow 1-3% YoY in FY2025, in line with long-term trends.</p>	<p>Steady price regime expected</p> <p>After reaching all-time highs in CY2022, fertiliser prices, as well as associated raw materials, witnessed some moderation during CY2023. These are expected to remain largely stable, except DAP prices, which have increased to some extent off late.</p>	<p>~6-8%</p> <p>The margins of the phosphatic fertiliser industry have been adversely impacted in FY2024 by a downward revision in subsidy and elevated input prices. Revision in NBS rates for FY2025 points towards some improvement in profitability in the NPK segment, except for DAP, which continues to face margin pressures.</p>	<p>50-70 days</p> <p>ICRA expects the subsidy budget for FY2025 to be adequate and also expects the GoI to release funds in a timely manner, thereby not allowing these levels to escalate materially for a sustained period.</p>	<p>6.0x to 8.0x</p> <p>Interest coverage is likely to remain comfortable</p>

Rating distribution for ICRA-rated entities in the fertiliser sector

Exhibit: Distribution of long-term ratings

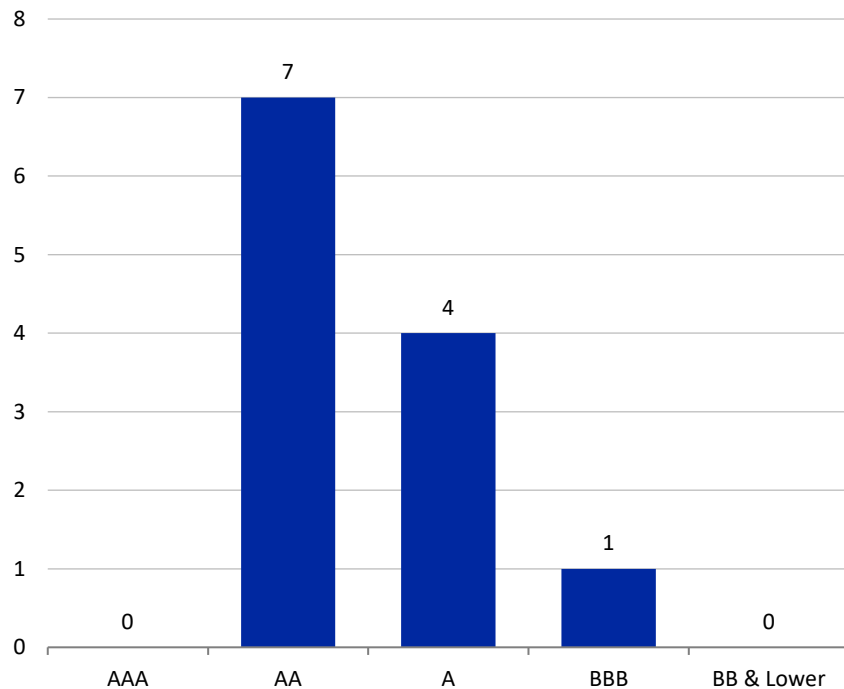
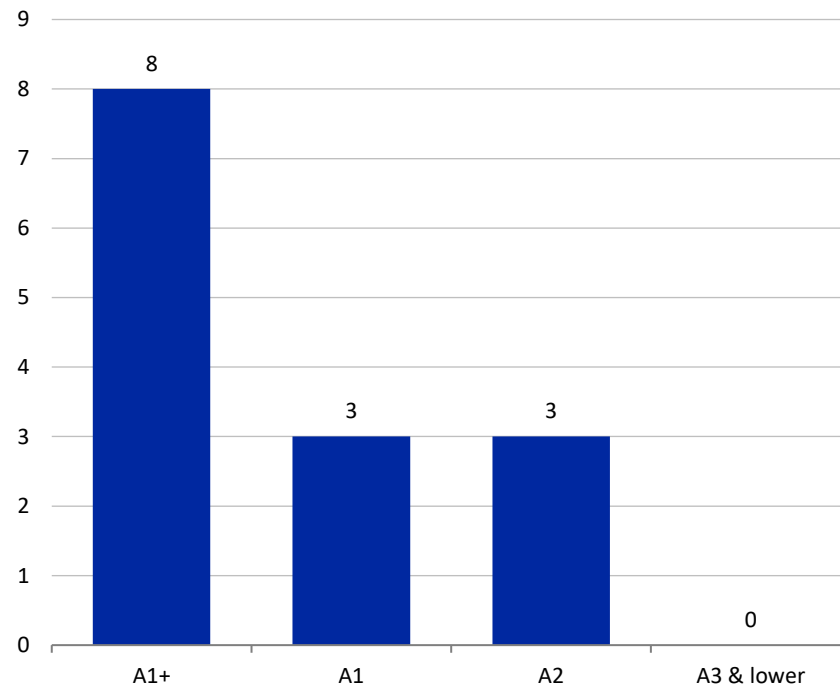


Exhibit: Distribution of short-term ratings



Note: ICRA rates 14 entities in the fertiliser industry with two entities having a rating only on short-term scale and one entity having a rating only on long-term scale

List of ICRA-rated entities in the fertiliser sector

Company Name	LT rating	ST Rating	Outlook	Last rating action
Basant Agro-Tech (India) Limited	[ICRA]BBB+	[ICRA]A2	Negative	Rating reaffirmed; outlook revised to Negative in Mar 2024
Chambal Fertilisers & Chemicals Limited		[ICRA]A1+		Rating reaffirmed in Jan 2024
Deepak Fertilisers & Petrochemicals Corporation Limited	[ICRA]AA-	[ICRA]A1+	Stable	Rating reaffirmed in Feb 2024
Indian Farmers Fertiliser Cooperative Limited	[ICRA]AA+	[ICRA]A1+	Stable	Rating reaffirmed in Dec 2023
Indorama India Private Limited	[ICRA]AA-(CE)	[ICRA]A1+ (CE)	Stable	Rating reaffirmed in Sep 2024
Madhya Bharat Phosphate Private Limited	[ICRA]A+	[ICRA]A1	Positive	Rating reaffirmed in May 2024
Mahadhan Agritech Limited	[ICRA]AA-	[ICRA]A1+	Stable	Ratings reaffirmed in Feb 2024
Mosaic India Private Limited		[ICRA]A1+		Rating reaffirmed in Sep 2023
National Fertilizers Limited	[ICRA]AA-	[ICRA]A1+	Stable	Ratings reaffirmed in May 2024
Paradeep Phosphates Limited	[ICRA]A	[ICRA]A1	On watch with developing implication	Ratings on watch with developing Implication in Feb 2024
Rama Phosphates Limited	[ICRA]A-	[ICRA]A2+	Negative	Rating reaffirmed; outlook revised to Negative in Mar 2024
Rashtriya Chemicals and Fertilizers Limited	[ICRA]AA	[ICRA]A1+	Stable	Ratings reaffirmed in Jun 2024
Talcher Fertilizers Limited	[ICRA]A-		Stable	Ratings reaffirmed in Jan 2024
Yara fertilisers India Private Limited	[ICRA]AA-	[ICRA]A1+	Stable	Rating assigned in Jan 2024



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