

INDIAN FERTILISER INDUSTRY

**New guidelines unlikely to have any
adverse impact on the profitability
of P&K players**

FEBRUARY 2024





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The Government of India's recent guidelines to regulate Maximum retail price (MRP) for Phosphatic and Potassic (P&K) fertilisers, specifying a reasonableness for the profit margins for traders (8%), manufacturers (10%), and integrated manufacturers (12%) is not expected to have a materially negative impact on the industry. Historical data indicates that companies have rarely achieved such margins. Thus, the policy serves more as a safeguard against excessive profits rather than a constraint on industry profitability.



- As per the guidelines by Department of Fertilisers dated January 18, 2024, only a reasonable profit percentage has been allowed for P&K fertiliser companies based on their categories i.e., 8% for importers, 10% for manufacturers and 12% for integrated manufacturers at Profit before tax level.



- With this move, the upside potential for companies manufacturing and trading in P&K fertilisers has been capped. Although the policy always talked about reasonableness of the profits that can be generated by the fertiliser companies, the same has been quantified now.



- While historical data suggests that the industry has rarely generated such margins in the past and accordingly, the capping of margins is unlikely to have a major impact on the industry. However, at times of low raw material prices or depressed international prices, fertiliser companies were able to generate higher than the allowed margins, which would be capped going forward.



- In the current scenario, the profitability of the P&K fertiliser companies has remained muted. With the moderation in Nutrient based subsidy (NBS) rates and largely steady MRPs, the profitability is likely to remain muted in the near term and profitability caps are unlikely to be breached.



- The Government of India 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 in the form of nutrient-based subsidy. The subsidy is likely to be adequate at current prices of raw material and finished fertilisers, although ICRA expects the Government to allocate and disburse additional amounts as and when required, in a timely manner.



- ICRA's outlook on the sector remains **Stable** amid continued Government support.



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