

## **Digital push to drive growth for Fertilizer sector**

**JULY 29, 2017**

### **Policy initiatives to enhance growth of Fertilizer Industry**

Agriculture is the back-bone of the Indian economy and fertilizer industry plays a crucial role in shaping the destiny of this primary sector, which is source of livelihood for over 58 percent of the rural households accounting for about one seventh of the Gross Domestic Product (GDP). The industry in the country operates in public, private and co-operative sector, with the private sector occupying a larger share in the manufacturing capacity. In order to insulate farmers from high prices, the fertilizer sector is highly regulated and controlled by the government. Besides, the government has devised numerous policies favorable to the growth of the fertilizer industry, attracting huge investment in all three sectors viz. public, private and co-operative.

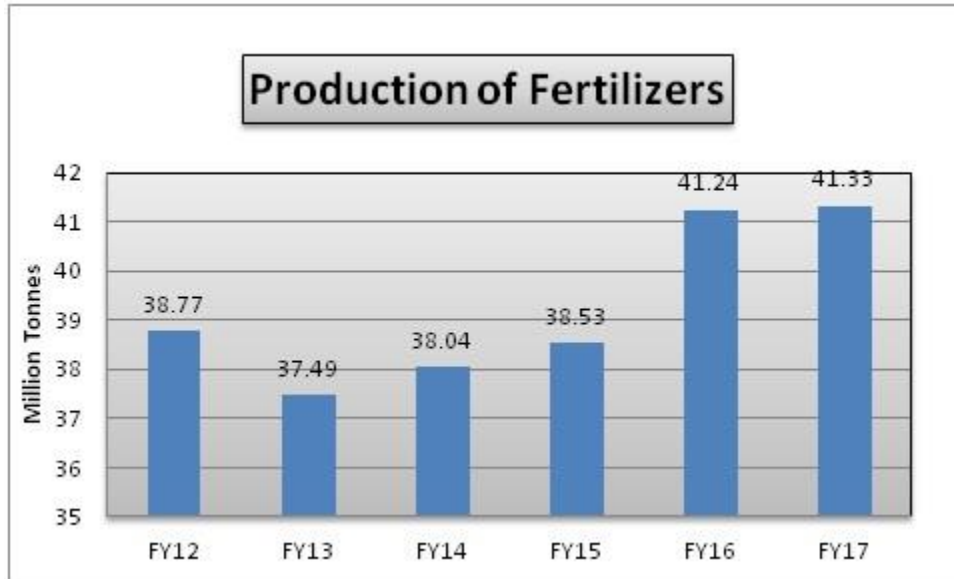
The launch of the Green Revolution in late 60s gave a positive boost to the sector. Presently, the fertilizer industry is third largest in the world in terms of production and second largest in terms of consumption, next only to China. Increase in the domestic production as well as consumption of fertilizers has admittedly contributed significantly towards ensuring food security in the country.

### **Sector wise installed capacity**

At present, there are 30 large size urea units in the country. Out of these, 27 urea units use Natural Gas (using either domestic gas/LNG or both) as feedstock & fuel and remaining three urea units use Naphtha as feedstock & fuel. Besides, there are 21 units manufacturing Di-ammonium Phosphate (DAP) & Complex Fertilizers and 2 units for Ammonium Sulphate as by-product. The installed capacity of DAP & complex fertilizers during 2016-17 have reached a level of 14.6 MT as against 14.4 MT in 2015-16. Meanwhile, the annual installed capacity of Urea remained almost same at a level of 20.76 MT during 2016-17 compared to the previous year.

### **Production**

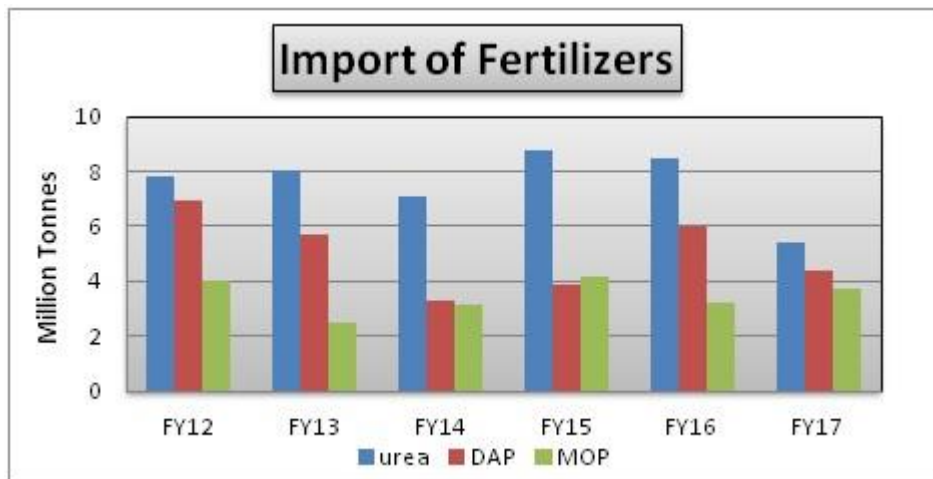
The overall production of fertilizers (including Urea, DAP, Complex Grade Fertilizer, A/S, CAN, A/C and SSP) during 2016-17 at 41.33 MT was higher than the production of 41.24 MT during the year 2015-16 and 38.54 during 2014-15, driven by favorable policy changes by the government.



Going further, the cost of production is expected to decline as the industry would continue to benefit from a subdued energy price environment. Apart from domestic production, the government is also importing Urea through three canalizing agencies viz. MMTC, STC and M/s IPL while import of DAP, Muriate of Potash (MOP) and other complex Fertilizers is de-canalized.

**Import**

Domestic fertilizer production is less than market demand, forcing the country to import fertilizers to meet the demand supply gap. The country's import dependency for urea stands at 20-25 per cent of the total demand, while it is around 90 per cent in phosphatic sector in the form of either finished products or its raw material and 100 per cent for potash.

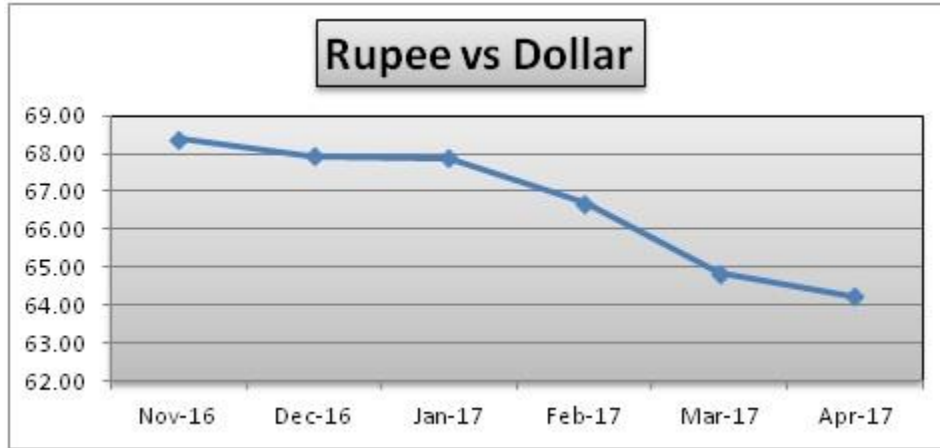


For the FY17 the import of urea declined to 5.48 MT as against 8.47 MT in the FY16 and 8.75 MT in the FY15. The falling trend in urea imports was because of rise in domestic production. Besides, on the back of the government's initiatives towards relaxation of production limits for fertilizer companies, imports of urea are expected to end over the next five years. Import of DAP

too witnessed decline to stand at 4.39 MT in FY17 as against 6.01 MT in the previous year, while import of MOP edged higher to 3.74 MT in FY17 from 3.24 MT in FY16.

**Rupee appreciation to reduce input cost**

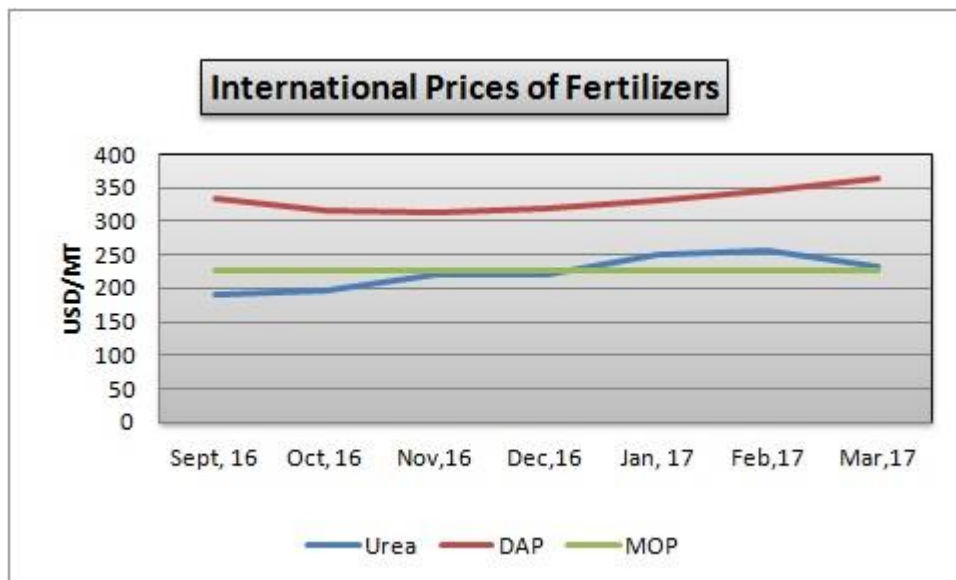
A continuous appreciation in rupee against dollar has been seen from the start of the year, which is a positive sign for the Indian fertilizer sector as the gas and raw material requirements of the industry are met via imports.



The currency appreciation will reduce cost of production for the fertilizer industry, leading to lower subsidy-driven working capital borrowings and lower interest expenses. This will also enable lower subsidy outgo for the central government.

**Trend in international prices of fertilizers**

While the prices of Urea increased significantly from \$191/MT in Sep 2016 to 256/MT in Feb 2017, it has corrected in Mar 2017 to 231/MT due to excess capacity and higher inventories.



Addition of new thermal capacity in China had a net positive impact on capacity growth in the region, which pushes the prices down. Besides, higher exports from Pakistan have further increased the global supply. However, DAP prices continued their rising trend. The prices of MOP fertilizers remained unchanged.

### Recent developments

**Cabinet approves amendments to New Urea Policy:** The government has approved amendments to the New Urea Policy'2015. These amendments will protect the production beyond re-assessed capacity (RAC) by the urea units and are expected to boost indigenous urea production in the country.

**Budget assigns Rs 10 K crore special banking arrangement to clear fertilizer subsidy dues:** In order to reduce the burden of fertilizer subsidy backlogs, a special banking arrangement of Rs 10,000 crore has been approved in the Budget 2017-18. Besides, the Union Budget has allocated Rs 74,235 crore to the fertilizer department for the year 2017-18.

**Urja Ganga Project ' Mega pipeline project in Varanasi:** The government has launched Urja Ganga Project, an ambitious gas pipeline project which will provide piped cooking gas to all the residents of Varanasi within two years. It will also give lot of benefits to help renewal of a number of declining fertiliser industrialised units and other sectors like Power and Automotive.

### Outlook

Following the government's key initiatives and stronger rupee against dollar, the overall outlook for the fertilizer industry looks optimistic in medium-term, but a key determining factor is monsoon which could directly impact demand. The prediction of a normal monsoon this year by weather forecasting agencies and recent spate of farm loan waivers across the country, will improve fertilizers demand in future.

The sector expects to witness modest growth in domestic output owing to recent amendments in the urea policy 2015. Government initiatives like the Pradhan Mantri Urja Ganga Yojana will also lead to revival of fertilizer plants, industrialization of more than 20 cities and city gas network development in 7 cities. With the implementation of reforms on the subsidy disbursements front, the government's continuous rural focus along with an ambitious goal to double farmers' income by 2022 and deregulation of urea is expected to give a fillip to the sector.

## Companies Financial Data in Industry

Company Name	CMP	MCAP	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
Tata Sponge Iron Ltd.	828.60	1276.04	581.43	1.33	51.15	16.20
Tata Metaliks Ltd.	677.70	1713.77	94.04	0.37	40.25	16.84
Technocraft Industries (India) Ltd.	464.95	1222.82	242.14	0.65	37.00	12.56
Sarda Energy & Minerals Ltd.	288.25	1038.58	331.81	1.39	36.41	7.92

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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