

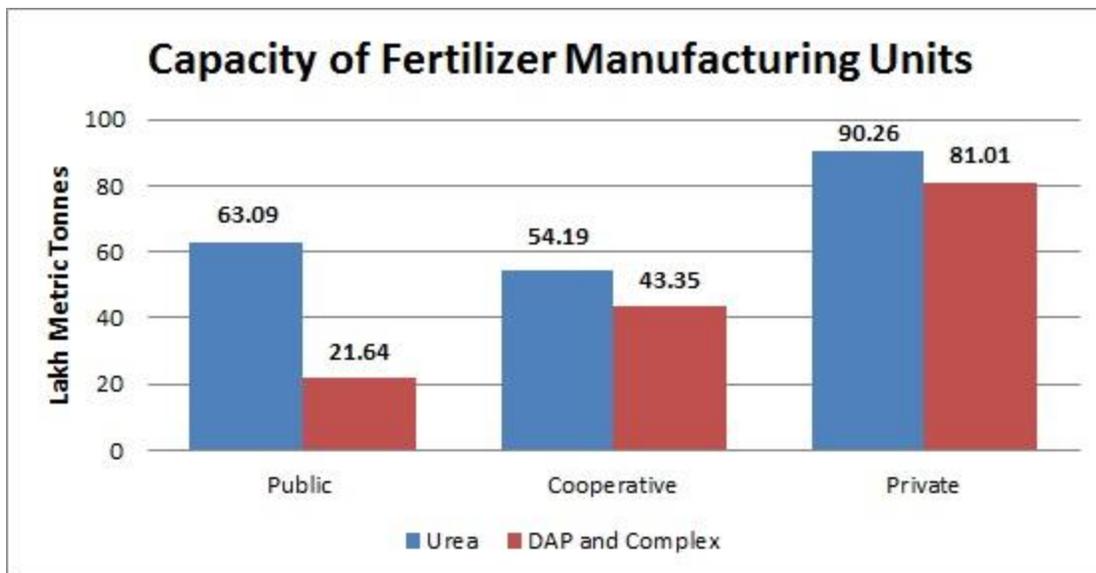
Government initiatives to provide fillip to Fertilizer sector

Fertilizer industry plays an important role in the growth of Indian economy. 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. The Indian Fertilizer Industry grew remarkable in the last five decades and currently ranks third in the world. India is the second largest consumer of fertilizers after China and also ranks second in the production of nitrogenous fertilizers and third in phosphatic fertilizers whereas the requirement of potash is met through imports since there are limited reserves of potash in the country.

Chemical Fertilizers are classified into Urea, Diammonium Phosphate (DAP), Muriate of Potash (MOP), Single Super Phosphate (SSP) and other Complex fertilizers like Calcium Ammonium Nitrate (CAN) and various grades of NPK Fertilizers (Fertilizers having different grades of Nitrogen (N), Phosphorus (P), and Potassium (K)). In India the most widely used fertilizer in the Nitrogenous category is Urea, DAP and MOP for Phosphorus and Potassium respectively.

Installed capacity

Installed capacity of manufacturing units of Urea, DAP and other complex fertilizers in India has increased significantly supported by various Government initiatives towards the growth of the Fertilizer Industry. At present, there are 30 Large sized Urea Manufacturing units, 21 DAP and Complex Fertilizers units and 2 units which manufacture Ammonium Sulphate as a By- Product. Moreover, there are 105 medium and small scale units in operation producing Single Super Phosphate (SSP).

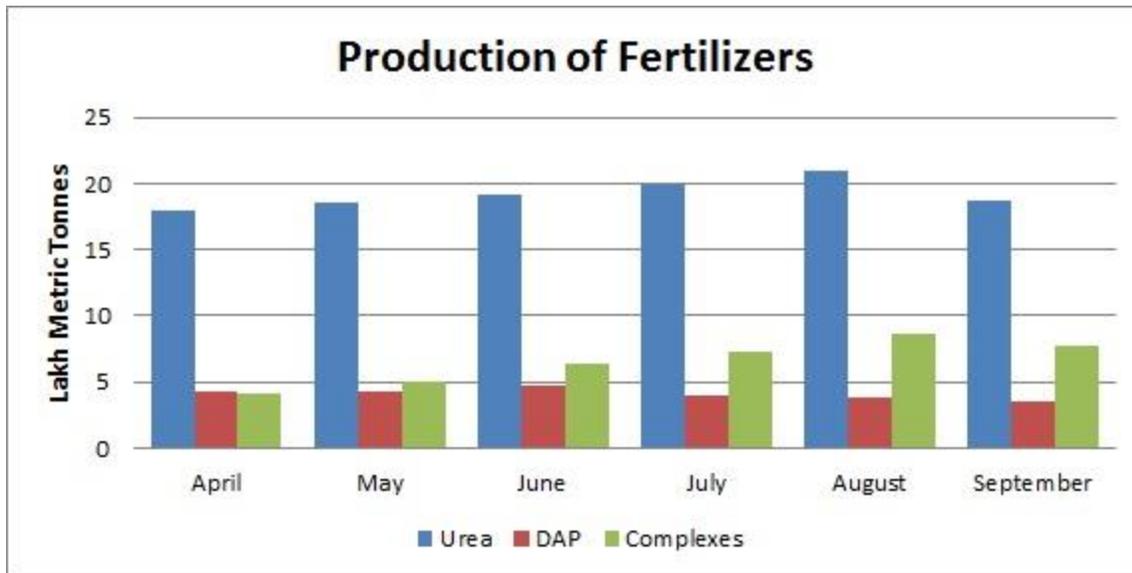


Production

The production of urea during the year 2016-17 stood at 242.01 Lakh Metric Tonnes (LMT),

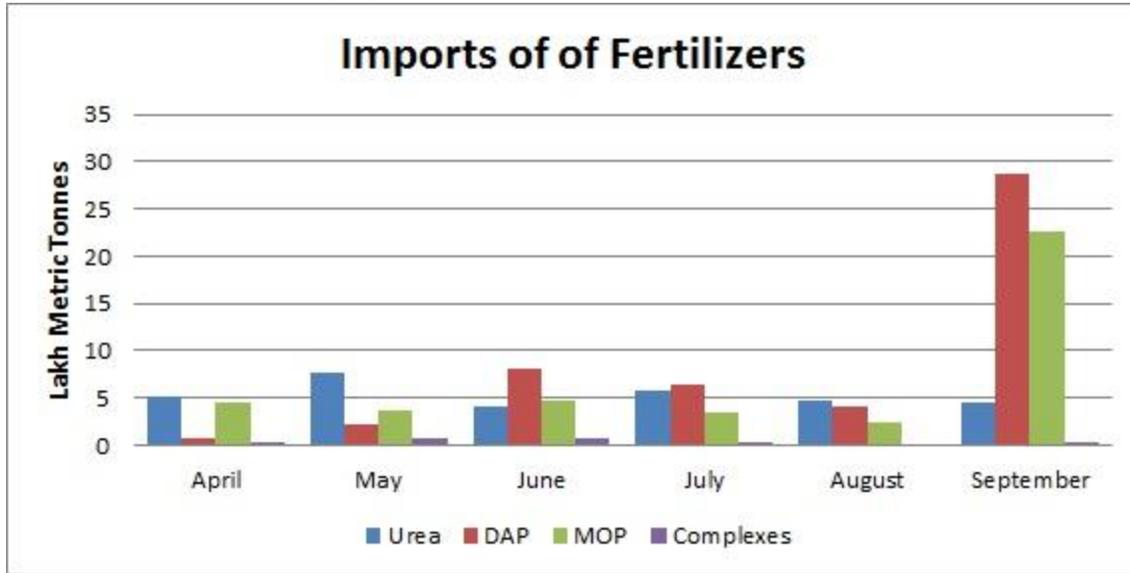
which is significantly higher than the production of 225.75LMT urea during 2012-13 and 227.15 LMT during 2013-14. While India is the world's second largest consumer of urea, the Government of India is working towards increasing the production of urea so as to end imports by 2022 and achieve self-sufficiency in Urea Production.

Meanwhile, the production of Urea stood at 18.68 LMT in September 2017, down by 11% as compared to production of 20.99 LMT in August, 2017. Production of DAP decreased 6.99% to 3.59 LMT in September 2017 as compared to 3.86 LMT in August 2017. Further, production of Complexes declined 20% m-o-m to 7.81 LMT in September 2017.



Imports

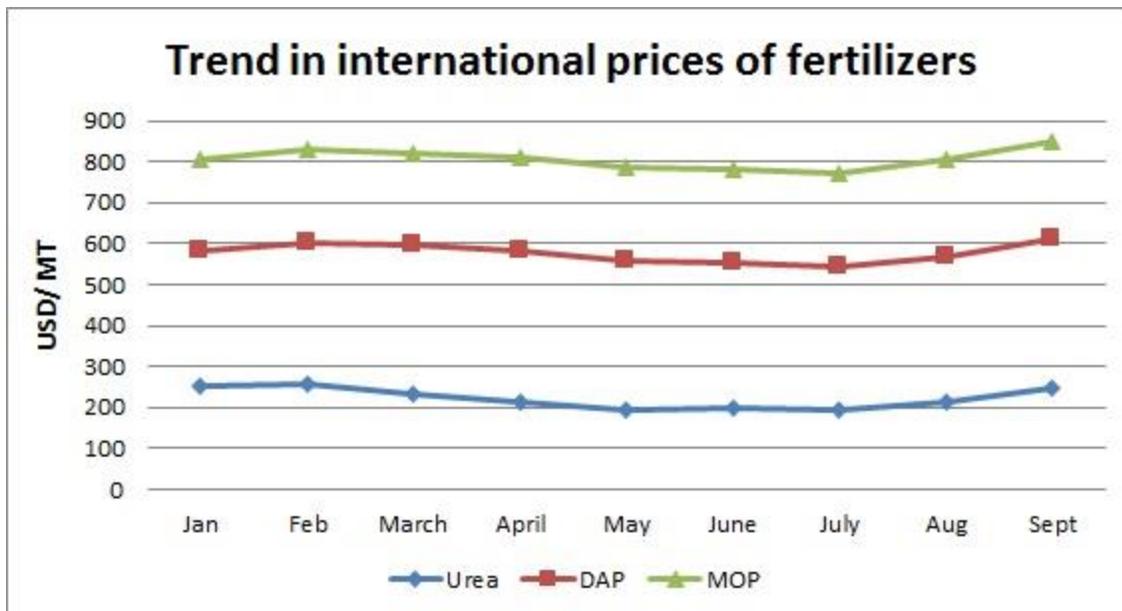
Imports of Urea stood at 4.54 LMT in September 2017 as compared to 4.68 LMT in the previous month, down by 2.99%. Moreover, imports of DAP jumped around seven-fold to 28.77 LMT on m-o-m basis, while imports of MOP increased 10 fold to 22.71 LMT in September from 2.32 LMT in August 2017. Further, imports of Complexes stood at 0.21 LMT in September 2017.



Trend in international prices of fertilizers

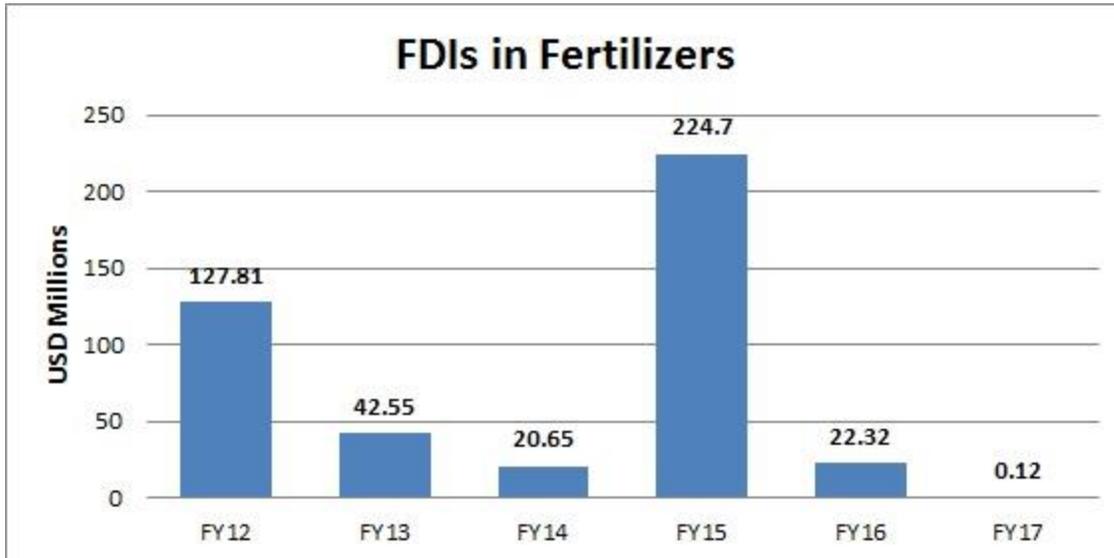
The price of Urea (FOB) has increased by about 28.8% from \$191 /MT in September, 2016 to \$246 /MT in September, 2017. The price of DAP (CFR) has increased by about 9.3% from \$334 /MT in September, 2016 to \$365 /MT in September, 2017. Moreover, the price of MOP (CFR) has increased by about 5.7% from \$227/MT in September, 2016 to \$240 /MT in September, 2017.

Further, the price of Phosphoric Acid (CFR) has decreased by about 6.1% from \$607/MT in September, 2016 to \$570/MT in September, 2017. The price of Rock Phosphate (CFR) has decreased by about -2.5% from \$121 /MT in September, 2016 to \$118 /MT in September, 2017. The price of Ammonia (CFR) has increased by about 10.3% from \$232/MT in September, 2016 to \$256 /MT in September, 2017. The price of Sulphur (CFR) has increased by about 40.2% from \$92/MT in September, 2016 to \$129/MT in September, 2017.



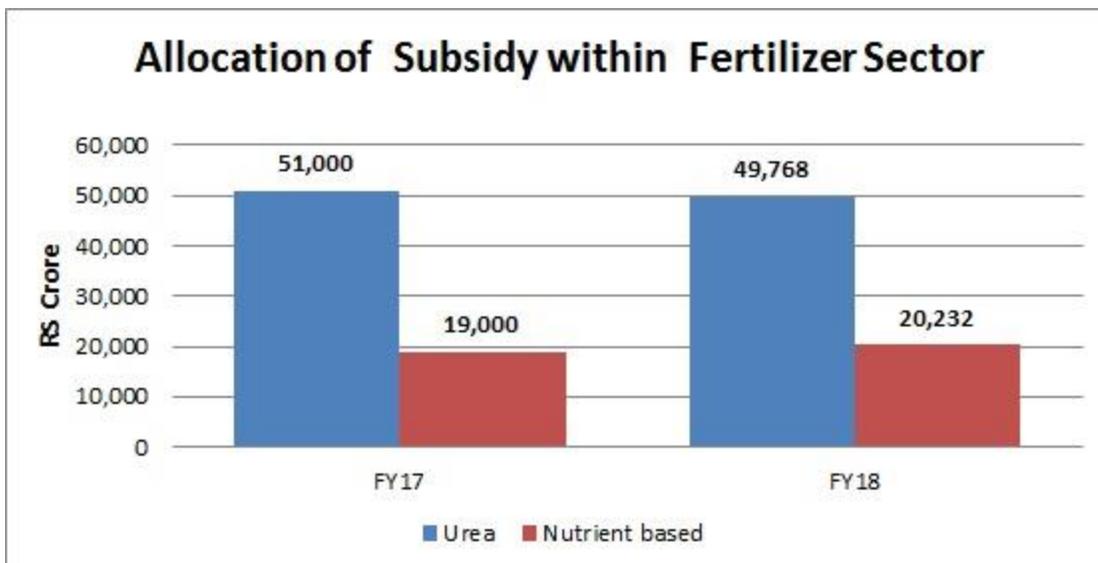
FDI in Fertilizers

The fertilizer sector has attracted just \$0.12 million or Rs 0.80 crore foreign direct investment (FDI) during FY17 as compared to \$22.32 million or Rs 149.00 crore in FY16. The sector had attracted FDI worth \$224.70 million or Rs 1,378.20 crore in FY15.



Subsidies offered towards the Fertilizer Sector

The Fertilizer Industry is highly regulated and monitored by the Government of India. The government kept the Fertiliser subsidy unchanged at Rs 70,000 crore for 2017-18 fiscal, even as the domestic industry was demanding higher allocation to clear subsidy arrears of about Rs 35,000 crore. In fertiliser subsidy, the government has allocated Rs 49,768 crore for urea and Rs 20,232 crore for decontrolled phosphoric and potassic (P&K) fertilisers.



Impact of budget on Fertilizer industry

The production of decontrolled fertilizers namely diammonium phosphate (DAP), muriate of potash and single superphosphate (SSP), is expected to get a further boost with the Union Budget raising allocation towards the nutrient-based subsidy. The subsidy was increased from Rs 20,232 crore in FY 2017-18 to Rs 25,090.35 crore for FY 2018-19. Resultantly, this is expected to increase the share of decontrolled fertilizers in the overall fertilizer production to 45% from 40% earlier over the next two to three years. Urea currently accounts for 60% of the overall fertilizer production. The fertilizer industry received Rs 70,079.85 crore as subsidies where Rs 44,989.50 crore is earmarked as the urea subsidy while the remaining Rs 25090.35 crore is allotted for the nutrient-based subsidies. Further, with the increase in minimum support price for crops to the extent of 1.5 times of the production is also expected to help fertilizer production.

Recent developments

Government cuts GST rate on fertilizers to 5%

GST is designed to eliminate tariff barriers between states, making movement of goods easier and ending tax arbitrage that distorts economic activity, besides improving the competitiveness of industry. The tax reform is expected to boost the growth rate of the country's \$2.3 trillion economy by up to two percentage points.

The GST Council reduced the GST rate on fertilizers from 12% to 5%, while that on tractor parts was reduced from 28% to 18%. The decision to lower the tax on farm nutrients was taken in light of concerns raised by several states. In the pre-GST regime, fertilizers attracted 4-8% indirect tax depending on the raw materials used and the states in which the products were sold.

Government launches DBT system for fertilizer subsidy

The government has introduced Direct Benefit Transfer (DBT) system for fertilizer subsidy on Pilot Basis across the country. Based on the experience gained from pilot DBT, it has been decided to launch the Pan-India rollout of DBT in a phase-wise manner across all States/UTs. As on date 19 States/UTs have been brought under DBT System. Under the proposed fertilizer DBT system, 100% subsidy on various fertilizer grades shall be released to the fertilizer companies, on the basis of actual sales made by the retailers to the beneficiaries. The farmers will continue to pay the subsidised price w.r.t. Urea and P&K fertilizers i.e. the fertilizers will be available for farmers, as before at reasonable rates. Sale of all subsidised fertilizers to farmers/buyers will be made through Point of Sale (PoS) devices installed at each retailer shop and the beneficiaries will be identified through Aadhaar card, KCC, voter identity card, etc.

Govt introduces 45kg urea bags in place of 50kg to cut demand

The government has introduced 45kg bag of urea in place of existing 50 kg bag with a view to bringing down the consumption by 10 per cent. This decision was taken in September 2017. Urea manufacturers have been given six months for smooth implementation. The consumption of urea stood at 296 lakh tonnes last fiscal. The consumption of neem-coated urea stood at 296.14 lakh tonnes in 2016-17 as against around 306 lakh tonnes each in the previous two years. To encourage balanced use of fertilisers, the government has made it mandatory for all the domestic producers of urea to produce 100 per cent as neem-coated urea. Urea production was 242.01 lakh tonnes in 2016-17. The gap between supply and demand is being met through imports.

Outlook

Outlook for fertilizer sector looks promising in the coming time, as government has launched one of the largest subsidy reforms direct benefit transfer for fertilizer subsidies. The massive amount of data being generated is expected to provide a clear picture of farming activity in the country and help make future planning for the sector more effective. Increase in allocation towards the nutrient-based subsidy in Union Budget 2018-19 too will provide fillip to the industry. Moreover, India is likely to become an exporter of urea by 2030, as the government is giving incentives to manufacturers to increase capacities in order to eliminate imports. Approval of loan waivers by various state governments like U.P., Maharashtra and Punjab is expected to provide financial relief to the farmers and this could also have a positive effect on the fertiliser sector. Reduction in the GST rate on fertilizers by the government will also lend some support to the Fertilizer Industry.

Companies Financial Data In Industry

Company Name	CMP	MCAP	BOOK VALUE	DIV. YIELD %	TTM EPS	TTM PE
Monsanto India Ltd.	2501.00	4317.41	355.95	1.20	81.99	30.50
Neelamalai Agro Industries Ltd.	1511.00	94.79	675.85	1.32	66.39	22.76
Agri-Tech (India) Ltd.	165.15	98.10	115.55	0.00	56.69	2.91
Florence Investech Ltd.	2175.00	724.05	492.07	1.38	44.71	48.65
Simran Farms Ltd.	158.90	60.25	47.53	0.00	32.34	4.91
JK Agri Genetics Ltd.	1180.00	425.26	223.21	0.34	28.37	41.59
Kaveri Seed Company Ltd.	470.95	3112.61	156.03	0.00	21.41	21.99
Shree Ganesh Bio-Tech (India) Ltd.	247.00	45.23	64.73	0.00	21.36	11.56
Apis India Ltd.	17.70	9.75	107.67	0.00	17.43	1.02
Goodricke Group Ltd.	405.40	875.66	168.42	1.11	14.63	27.70

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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