Frank Notes

Satish Chander

Fertiliser Industry Amidst Severe Liquidity Crisis

Indian Fertiliser industry is amidst severe liquidity crisis mainly due to inordinate delay in payment of subsidy by the Government. Under provisioning in the successive Union Budgets for fertiliser subsidy has resulted in carry forward of unpaid subsidy bill of one year to the next of Rs.30,000-40,000 crores for the past 3-4 years. The gross under provisioning results in exhaustion of funds within first 5 months of the financial year. For instance, even in the current year, Rs.30,200 crores of industry's dues were outstanding as on 1st August, 2015. This amount of pending dues will increase further with every passing month, as the budget allocation will be exhausted after settling the bills for August for urea and for September for P&K fertilisers. There is no money left for payment of freight for urea.

It will not be out of place to reiterate that fertiliser subsidy is meant for the farmers which reaches them in the form of lower selling price of fertilisers than their cost of production or imports. Subsidy is nothing but the difference between the cost of production / import and the farmers' price of fertilisers. In other words, the fertiliser industry realizes its cost of production/import in two parts, through maximum retail price for farmers and the balance is reimbursed by the government as subsidy. For the fertiliser industry, subsidy is nothing but reimbursement of essential component of cost. It may also be underlined that farmers at present pay only 25% cost of urea and 60-65% cost of NP/NPK complex fertilisers. Therefore, a huge part of cost of production or imports has to be realized from the Government. Industry has to pay upfront for its inputs. For example, bills for supply of natural gas have to be settled fortnightly, failing which letter of credit will be encashed. Similarly, raw materials are imported against letter of credit.

Fertiliser subsidy is administered by Government of India through fertiliser pricing and subsidy policies notified from time to time. Government took a step forward towards reforms in fertiliser policy by introducing Nutrient Based Subsidy (NBS) policy for phosphatic and potassic (P&K) fertilisers w.e.f. 1.4.2010. NBS policy enables government to regulate the quantum of subsidy by allowing fixed rate of subsidy on P&K fertilisers keeping in view availability of funds and farmers' needs. The industry determines farmers' price of fertilisers keeping in view the fixed rate of subsidy and the cost of production / import with reasonable margins. The share of subsidy in P & K fertilisers used to be about 80% before implementation of NBS Scheme. This has come down to about 35% now under NBS scheme.

But, urea continues to be under price control of the government. The farmers' price of urea fixed by the government is significantly low compared to the cost of production/import. Subsidy on urea has continued to increase over the years, due to almost static retail price reaching a level of 75% of the cost of production. This has distorted price ratio of urea; DAP from 1:2 in 2009-10 to 1:4.5 in 2014-15. This has led to excess use of urea *vis-à-vis NP/NPK* complex fertilisers. Such a policy is hurting the Indian soils due to imbalanced use of primary nutrients. The present government recognized this problem very early in July 2014 during first budget presentation but so far no action has been taken to balance the farmers' price of various nutrients.

The payments are much delayed beyond stipulated time in the policy for urea and reasonable time for P&K fertilisers. In addition to grossly inadequate provisions in the budget for fertiliser subsidy, the payments are delayed due to purely procedural and administrative reasons even when funds are available. Instead of simplification of procedures, these have been made more and more complex during last few years. For example, 5-15% residual payments of subsidy have not been made since November 2012. The procedures require that material received by lakhs of dealers has to be acknowledged through mobile fertiliser monitoring system (mFMS) by each dealer. This compliance took two years due to several logistic problems including lack of technical capability of dealers. Second, the state governments have to certify the quality and quantity of fertilisers which some state governments simply do not comply. Central government instead of acting against the concerned state governments, penalises the industry by withholding its legitimate dues. More than Rs. 10000 crore remain unpaid on account of residual subsidy since November 2012.

There are never ending problems in administration of subsidy. Fertiliser companies are not able to raise bills for significant amount of dues on account of delays in processing and notification of the rates of subsidy. Sometimes rates are notified but these are not uploaded in the computerized Fertiliser Monitoring System (FMS) or Mobile Fertiliser Monitoring System (mFMS) maintained by the government. Uploading of the subsidy rates on FMS/mFMS is essential for enabling the fertiliser companies generate subsidy bills. For example, there is undue delay in processing of quarterly/annual escalation bills for domestic urea, delay in notification of Import Parity Price (IPP) of urea for additional production, delay in enabling the computerized FMS/mFMS to reflect the change in procedures for payment of balance subsidy for urea and P&K fertilisers and notification & uploading of the revised road freight rates on FMS/mFMS and the list continues.

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The policies approved by the Cabinet and not being implemented is further hurting the industry. For instance Cabinet approved increase in fixed cost by Rs.350 per tonne with minimum fixed cost of Rs.2300 per tonne of urea under Modified NPS-III policy notified on 2nd April, 2014. This policy also allowed special allowance of Rs.150 per tonne of urea to gas based plants which are more than 30 years old. This Policy was made effective for 2014-15. But, even after 19 months of its approval, industry is yet to be paid this meager increase in fixed cost.

The previous government shirked its responsibility of timely payment of subsidy as per its own notified polices. It was expected that the new government in the Centre will resolve this issue by clearing the previous year's backlog and ensuring timely payment of regular monthly bills of subsidy and freight. However, the industry experience so far has not been any different from then earlier government on this account.

Industry continues to reel under severe liquidity crisis with some of the payments pending for years together. Out of total outstanding of Rs. 30,200 crores as on 1st August, 2015, more than Rs.3,300 crore is pending for the period upto 2012-13, Rs.5,600 crore for 2013-14, more than Rs.9,600 for the year 2014-15 and the balance Rs.11,600 for the current year 2015-16. This clearly brings out the extent of outstanding payments and the burden of interest cost on the industry. Fertiliser companies have to pay much higher rate of interest on additional borrowings to meet additional working capital requirements due to delay in payment of subsidy. The government does not pay any interest to the industry even if the payments get delayed by years. On the contrary, the government charges interest at heavy rates of 17.45% including interest @14.45% plus a penal interest of 3% per annum on any recovery from the industry, even if the same is delayed by few days. A number of fertiliser companies have red ink on their balance sheet and many more will join the rank, if the government does not reduce the backlog of payments. Some units may not be able to sustain operation due to heavy burden of interest on working capital.

Current year's allocations are insufficient to meet the payment obligation for the year. In addition, there are previous year's arrears of about Rs. 40,000 crores. Government needs to make sufficient provision through supplementary grants this year to clear at least part of the backlog. The fiscal situation of the government is comfortable this year. Hence there is no reason that government should not meet its statutory obligations. ■