Fertilizer Sector during 2020-21

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The year 2020-21 witnessed an unprecedented worldwide public health crisis due to COVID-19. Economic, social and cultural activities were disturbed due to lockdown or partial restrictions imposed by the central, state or local administrations to prevent the spread of virus and minimize its impact. In spite of challenges due to COVID-19 pandemic, activities in agriculture and fertilizer sectors were least affected. This was possible due to exemption of these sectors from lockdown restrictions and help extended by central and state governments. Fertilizer Industry on its part ensured continuous production and dispatch of fertilizers by adopting all safety measures as per the guidelines of the Governments issued from time to time even at extra cost. As a result of these measures, fertilizer was the only sector among eight core industries registering positive growth while remaining seven sectors recorded negative growth in 2020-21. Major developments in fertilizer sector during 2020-21 are presented in the following paragraphs.

To begin with weather, Southwest monsoon 2020 arrived in Kerala on time, *i.e.,* 1st June, 2020. Overall rainfall from 1st June to 30th September, 2020 was 109% of long period average (LPA). Out of 36 meteorological sub-divisions, 31 sub-divisions received normal to excess rains and remaining 5 sub-divisions received deficient rains during the period. Water storage position in major reservoirs was comfortable in 2020. Live storage in 123 reservoirs at the end of *kharif* 2020 was 148.25 billion cubic meter (BCM) as against 151.07 BCM during the corresponding period in the previous year. This was 98% of the last year and 114% of the normal storage. Overall good rains facilitated higher coverage of area under various crops. Food grains production touched a record level of 308.7 million MT in 2020-21 as against 297.5 million MT in the previous year. Except cotton and jute & mesta, all other crops showed increase in production.

Total consumption of fertilizer products increased from 60.60 million MT during 2019-20 to 67.61 million MT in 2020-21 representing an increase of 11.6%. Consumption of urea at 35.04 million MT, DAP at 11.91 million MT, MOP at 3.42 million MT, NP/NPK complex fertilizers at 11.81 million MT and SSP at 4.49 million MT during 2020-21 recorded increase of 4.5%, 18.1%, 19.5%, 22.4% and 20.3%, respectively, over 2019-20. In terms of nutrients, consumption of total fertilizer nutrients at 32.54 million MT recorded a robust growth of 10.8% in 2020-21 over 2019-20. Per hectare use of total nutrients increased from 145.6 kg in 2019-20 to 161.3 kg in 2020-21.

Availability of fertilizers from opening inventory, indigenous production and imports was adequate to meet the surge in demand for fertilizers in 2020-21. Total indigenous production of all fertilizers at 43.49 million MT during 2020-21 registered an increase of about 2% over 2019-20. Production of urea at 24.60 million MT, NP/NPK complex fertilizers at 9.33 million MT and SSP at 4.92 million MT during 2020-21 marked increase of 0.6%, 7.6% and 15.8%, respectively, over 2019-20. However, production of DAP at 3.77 million MT witnessed a sharp decline of 17.1% during 2020-21. In terms of fertilizer nutrients, total production at 18.48 million MT during 2020-21 witnessed a marginal decline of 0.2% over 2019-20. While production of nitrogen (N) increased marginally by 0.2% to 13.75 million MT, phosphate (P_2O_5) declined by 1.1% to 4.74 million MT in 2020-21 compared to 2019-20.

Urea production could have been higher in 2020-21 but several factors limited the production. There was a cap on production of urea for naphtha based plants under policy. The viability of production beyond reassessed capacity was also affected under policy parameters. Two urea plants suffered loss of production mainly due to constraints in availability of working capital. A few plants encountered equipment related problems. Capacity utilization of phosphatic and complex fertilizer plants continued to remain low. This sector faces problems due to unfavorable taxation regime. There is same level of import duty on major inputs like ammonia and phosphoric acid and finished products like DAP. Also, the level of subsidy is same on domestically produced and imported fertilizers. Thus domestic industry is denied level playing field.

Supply of domestic gas to fertilizer plants has dwindled gradually over the years. This has made fertilizer plants more and more dependent on imported and more expansive LNG. Supply of domestic gas declined further from 12.8 million metric standard cubic meter per day (MMSCMD) in 2019-20 to 10.2 MMSCMD in 2020-21. Domestic gas constituted only 23.7% of total gas consumed during the year. The balance requirement of gas was met by imported LNG.

Imports of finished fertilizers remained high during the year. Import of urea at 9.83 million MT, DAP at 4.88 million MT, MOP at 4.23 million MT and NP/NPK complex fertilizers at 1.39 million MT during 2020-21 recorded increase of 7.7%, 0.2%, 15.2% and 86.3%, respectively, over 2019-20.

FAI continuously impressed upon the government, the need for additional allocation of funds for fertilizer subsidy in order to clear the arrears carried over from one financial year to other. In an unprecedented move, government announced additional allocation of Rs. 65,000 crore under Atmanirbhar Bharat 3.0 for 2020-21. This helped to clear most subsidy arrears of the fertilizer industry. As a result, Indian fertilizer industry was able to come out of the perennial liquidity crunch.

Government implemented the Modified NPS-III policy 2014 by issue of notification dated 30th March, 2020. The

Additional allocation of Rs. 14,775 crores to cover the increase in subsidy on P&K fertilizers will take fertilizer subsidy budget to Rs. 94,304.68 crores for the current year. However, there will be still higher requirement of funds for 2021-22.

payment of increased fixed cost for production upto reassessed capacity were made. But differential fixed cost for production above reassessed capacity is yet to be paid. Further, provision of minimum fixed cost under modified NPS-III policy 2014 is yet to be approved by the Government. This is under consideration of the Government. Giving relief to urea units using coal in urea production is also under consideration of the Government. Government tightened the energy norms for remaining 14 gas based urea units *w.e.f.* 1st October, 2020 as prescribed under NUP 2015.

NBS rates for N, P, K and S were marginally reduced for 2020-21 compared to 2019-20. The NBS rates for N, P, K and S had been fixed at Rs.18.789, Rs.14.888, Rs.10.116 and Rs.2.374 per kg, respectively for 2020-21 *w.e.f* 1st April, 2020. A new grade of fertilizer 14-28-0-0 was included in the notification of NBS scheme for 2020-21.

Issue of equitable treatment of taxes like GST in cost and realization in determination of reasonableness of profit/ MRP for P&K fertilizers under NBS remains under consideration of the Government. Customs duty on raw materials and intermediate products continued to impact competitiveness of domestic manufacturing of P&K fertilizers. The issue of delay in refund of accumulated input tax credit arising from inverted GST structure on inputs, non-refund of ITC on account of input services and IGST on ocean freight on imports on CIF basis remain to be addressed.

Having reviewed the performance and development of fertilizer sector during 2020-21, let us examine the prospects of the fertilizer sector for 2021-22. As regards weather, the Southwest monsoon made onset over Kerala coast on 3rd June 2021 with a delay of two days. Actual rainfall during June 2021 was 10% above LPA but in July it was 7% below LPA. IMD predicted normal (94 to 106% of LPA) rainfall during August 2021. Overall rainfall performance from 1st June to 31st July, 2021 was 1% below LPA. Out of 36 meteorological sub-divisions, 29 sub-divisions received normal to excess rains and remaining 7 sub-divisions received deficient rains during the period. Out of 694 reported districts, 72% districts received normal to excess rains during the period. Total live storage in 130 reservoirs was 85.36 BCM as on 29th July, 2021 as against 70.77 BCM on the same date in the previous year. Current year's storage is 121% of the last year storage.

As per the available information, total area sown under all *kharif* crops was 84.82 million hectares (million ha) as on 30th July, 2021 compared to 89.00 million ha during the corresponding period in the previous year. This was 4.7% lower than the corresponding period in the previous year.

Indigenous production of urea at 7.89 million MT and DAP at 1.11 million MT during April-July 2021 declined by 3.9% and 12.3%, respectively, over April-July 2020. However, production of NP/NPKs at 2.92 million MT and SSP at 1.71 million MT witnessed increase of 12.7% and 2.1%, respectively, during the period. Import of DAP and NP/ NPKs increased by 1.6% and 2.0%, respectively, during April-July 2021 over April-July 2020. However, import of urea and MOP declined by 6.7% and 41.8%, respectively, during the period.

Delayed and deficient monsoon rains and decline in sown area affected fertilizer demand during April-July 2021 over April/July 2020. Sale of urea at 10.19 million MT, DAP at 2.72 million MT, NP/NPKs at 3.69 million MT and MOP (for direct application) at 0.91 million MT during April-July 2021 witnessed decline of 11.4%, 26.6%, 4.6% and 7.9%, respectively, over April-July 2020. However, sale of SSP at 1.90 million MT registered an increase of 5.8% during the period.

Keeping in view that overall Southwest monsoon (June-September) 2021 is anticipated to be normal, deficit in cropped area during *kharif* 2021 is likely to be reduced. Normal Southwest monsoon is likely to leave good moisture contents in the soil for ensuing *rabi* crop season. Water availability in the reservoirs at the end of *kharif* season is also likely to be comfortable. International prices are not cooling and continuing to increase which remains a cause of concern. The total consumption of fertilizers during 2021-22 is likely to remain at the level of 2020-21.

Budget allocation for 2021-22 is Rs. 79,529.68 crores comprising Rs. 58,767.68 crores for urea and Rs. 20,762.00 crores for P&K fertilizers. Budget allocation for P&K fertilizers as per BE for 2021-22 has been reduced compared to BE of Rs. 23,504.00 crores in 2020-21.

In view of significant increase in international prices of finished fertilizers, raw materials and the intermediates used for manufacture of P & K fertilizers compared to the prices in 2020-21, Department of Fertilizers revised the NBS rates of P from Rs.14.888 per kg to Rs. 45.323 per kg *w.e.f.* 20th May, 2021. Increase in subsidy rates of P is applicable only upto 31st October, 2021. However, NBS rates per kg for N, K and S remained unchanged at the previous year's level. Accordingly, NBS rate per tonne of DAP and SSP increased from Rs. 10231 and Rs.2643 for 2020-21 to Rs. 24231 and Rs. 7513 per tonne for 2021-22, respectively. NBS rates for NP/NPK grades of fertilizers are now in the range of Rs. 11134 per tonne to Rs. 19910 per tonne. However, NBS rates for MOP and ammonium sulphate remained unchanged at Rs. 6070 and Rs. 4398 per tonne, respectively, for 2021-22.

Government has announced additional allocation of Rs. 14,775 crores to cover the increase in subsidy on P&K fertilizers due to increase in rate of subsidy notified on 20th May, 2021. This has taken fertilizer subsidy budget to Rs. 94,304.68 crores. But in view of continuing increase in international prices of fertilizers and raw materials, there will be still higher requirement of funds for 2021-22.

The performance of fertilizer sector in 2020-21 and prospects for 2021-22 are given in detail in the *Annual Review of Fertiliser Production and Consumption 2020-21* which is being published in the current issue of Indian Journal of Fertilisers. ■