Fertilizers

Industry Code (as per Stock Exchange): IN010102001’

November 2023

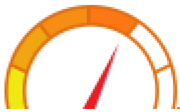
Overall Industry Risk Score: 15/20 | Favourable

Sample Size: 24 Companies

Median Rating Value of sample size: A-

Individual Parameters Contributing to the Score

Demand & Supply Balance



16/20

Moderate Demand

India’s agricultural sector has seen a steady growth over the last 5 years with a CAGR of 3.96% (CMIE) which has continued to drive a healthy domestic demand for fertilisers. After a blip in FY22, fertiliser sales volumes have seen a strong revival in FY23 to 68.1 million tons from 59.2 million tons which translated into a growth of 15.2%. Production of urea, which accounts for more than 50 per cent of the total fertilizer consumption in India, is expected to grow by 4% to 26 million tons in FY24. While the long term prospect for the sector will continue to be healthy, annual demand will remain vulnerable to monsoon and climate risks. Given the monsoon deficiency and the El Nino phenomenon, the fertiliser demand has been muted in the current fiscal with sales volumes stagnant at 28.0 million tons in the Apr-Aug’23 period vs that in the previous year.

The industry continues to make significant investments in enhancing capacities and has added a total of 8.5 million tons of production capacity over the period 2017-23. The project completion in the sector is set to surge further in FY25 with manufacturers scheduled to commission projects worth Rs 137.6 bn which also include revival of defunct units. This will help to reduce the dependence on imports, which stood at 45.5% of domestic production in FY23.

Extent of Competition 16/20

Low competition/ Entry Barriers

The fertiliser sector, particularly the urea segment, is a highly capital intensive business and therefore the entry barriers are significantly high. The manufacturers of urea are typically large public sector companies and farmer co-operatives with a few private sector players such as Indian Farmers Fertilizers Cooperative Limited, Rashtriya Chemicals & Fertilizers, National Fertilizers, Krishak Bharti Cooperative Limited and Chambal Fertilizers & Chemicals Ltd. Most of the additional capacity in urea is being undertaken by these existing players through brownfield projects.

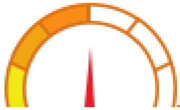
In the non-urea fertilisers, there are a larger number of private sector players; however, the availability of subsidies in the sector offsets the impact of competition to a large extent.

Regulatory Risk 16/20

Stable Regulatory environment

Given the strategic importance of the fertiliser sector to India’s food security and the livelihood of the farmers, government policies have continued to be supportive of the industry. The fertiliser manufacturers have remained highly dependent on the government for subsidies that ensure viability of their operations. The aggregate fertiliser subsidy of the government stood at Rs 2.55 tn in FY23 (i.e. 6.1% of total government expenditure) and is expected to exceed Rs 2.0 tn in FY24. Higher subsidies are necessitated during periods of high crude oil prices which lead to higher prices of raw materials in the sector. However, the timeliness of subsidy receipts is a critical credit determinant of the sector since it impacts the working capital requirements of the business,

The government has also taken proactive steps to enhance the domestic manufacturing capacity of fertilisers and reduce the dependence on imports. It had undertaken revival projects for defunct units of PSUs and three such projects had been completed in FY20-23 which added around 5 mn tons of urea capacity and entailed an investment of Rs 314.6 bn.

Input Related Risk  12/20

Largely predictable supply of inputs from diversified sources or Raw Materials with rare, occasional disruptions / fairly predictable price band

The fertiliser sector is highly vulnerable to the fluctuations in the prices of raw materials which includes natural gas and are mostly imported. The supply of such raw materials is also subject to geo-political risks; any conflict in West Asia can have an adverse impact on their supply and prices. However, the availability of subsidy offsets the price risks to a significant extent. Having said that, any adverse changes in the existing fertiliser policy framework can have an impact on the profitability of the fertiliser manufacturers.