ANNUAL REVIEW OF

FERTILISER PRODUCTION AND CONSUMPTION 2016-17

EXECUTIVE SUMMARY

Despite normal south-west monsoon, the pattern of distribution of rainfall was found to be uneven during the period. Uneven distribution of rainfall resulted in lower consumption of fertilisers in some of the major fertiliser consuming states. Total fertiliser nutrient consumption declined by 3% during 2016-17 over the previous year. The supply from indigenous production (N+P) increased nominally. The shortfall between consumption and production was fulfilled through import. Import of urea and DAP declined due to heavy opening inventory of these fertilisers reported in various channels. Import of MOP, however, increased in 2016-17 over the previous year.

REVIEW OF 2016-17

SOUTH-WEST MONSOON

After two consecutive years of poor monsoon, overall rainfall during south-west monsoon of 2016 (June/September) was normal. However, the pattern of distribution rainfall was found to be uneven during the period. Out of a total of 36 meteorological sub-divisions, 27 sub-divisions received excess/normal rainfall and remaining 9 sub-divisions received deficient rainfall. Total rainfall received during the period was 862 mm as against the normal rainfall of 888 mm, i.e., 3% below the long period average (LPA). About 68 per cent of total number of reported districts received normal to excess rains during the period.

Total live storage capacity of 91 major reservoirs in the country is 157.80 billion cubic meters (BCM) at full reservoir level (FRL). Water level was 117.2 BCM as on 29th September, 2016 as against 96.45 BCM on the corresponding date in the previous year.

FERTILISER CONSUMPTION

Total nutrient consumption ($N+P_2O_5+K_2O$) decreased from a total of 26.75 million metric tonne (MMT) during 2015-16 to 25.95 MMT during 2016-17. N consumption at 16.74 MMT and P_2O_5 at 6.71 MMT registered decline of 3.7% and 3.9%, respectively, during 2016-17 over the previous year. However, K_2O consumption at 2.51 MMT increased by 4.4% during the period.

Per hectare use of total nutrients reduced from 134.9 kg in 2015-16 to 130.8 kg in 2016-17. All-India NPK use ratio changed from 7.2:2.9:1 during 2015-16 to 6.7:2.7:1 during 2016-17.

PRODUCTION OF FERTILISERS

The production of total fertiliser nutrients ($N+P_2O_5$) showed a marginal increase of 0.1% in 2016-17 compared to increase of 8.2% in 2015-16. Nutrient-wise break up shows while the production of N at 13.38 MMT during 2016-17 registered a negative growth of 0.7% over 2015-16, production of P_2O_5 at 4.55 MMT recorded an increase of 2.8% during the period. In terms of products, production of urea declined from 24.46 MMT in 2015-16 to 24.20 MMT in 2016-17. Production of DAP at 4.33 MMT increased by 13.4% during the period. Production of complex fertilisers (other than DAP) at 7.92 MMT fell by 5.4% during the period. Production of SSP at 4.28 MMT showed a decline of 1.1% during the same period.

GAS AVAILABILITY

Supply of domestic gas to fertiliser plants continued to decline for third consecutive year. The average domestic supply declined from an average of 24.6 MMSCMD in 2015-16 to 20.7 MMSCMD in 2016-17. Share of domestic gas in total supply of gas to fertiliser plants declined from 56.6% to 49.0% during the period. The balance requirement was fufilled by imported LNG. Increase in share of more expensive imported gas increased the pooled gas price for urea plants.

IMPORT OF FERTILISERS

During 2016-17, import of urea and DAP reduced significantly from the level of the previous year. Import of MOP, however, marked increase during the period. Import of Urea was 5.48 MMT in 2016-17 as against 8.47 MMT in the previous year. Import of DAP also declined to 4.39 MMT in 2016-17 from 6.01 MMT in the previous year. However, import of MOP increased to 3.74 MMT in 2016-17 from 3.24 MMT in the previous year. About 521 thousand tonnes (KMT) of NP/NPKs was also imported during the year.

FERTILISER INVENTORY

Availability of fertilisers from opening stock at the beginning of the year, domestic production and imports was adequate to take care of demand for the full year. All-India stock of fertiliser products with various channels, viz., port, factory silos, field warehouses and transit was estimated at 4.78 MMT as on 31st March, 2017 which was higher than the previous year's level of 4.25 MMT. In addition, large stocks were also lying with the dealers for which separate data are not available.

RETAIL PRICES OF FERTILISERS

The basic retail price of Urea remained unchanged at Rs.5360 per tonne since November 2012. W.e.f. 25th May, 2015, Government of India made it mandatory for all indigenous urea manufacturers to produce 100% *neem* coated urea of their total urea production. The same policy is applied for imported urea at the port. GoI allowed the manufacturers / importers to charge 5% extra on the MRP of urea. Therefore, the retail price of neem coated urea (excluding tax) works out to Rs. 5628 per tonne.

The retail prices of P & K fertilisers covered under NBS are market driven and announced by the fertiliser companies from time to time. During 2016-17, due to softening in international prices, fertiliser industry had reduced substantially the MRPs of P & K fertilisers despite reduction in subsidy rates. MRP of DAP was reduced by about Rs.4500 per tonne (in two trenches) and MOP by Rs.5000 per tonne. MRPs of NP/NPKs were also reduced by Rs.1000 per tonne over the prices prevailed during the first quarter of 2016-17.

PRODUCTION OF MAJOR CROPS

Total production of food grains touched a record level of 275.7 million tonnes in 2016-17 which is 9.6% higher over the previous year's level. During 2016-17, almost all the major crops recorded increase in production except sugarcane. Among principal crops, production of rice at 110.2 MMT, wheat at 98.4 MMT, coarse cereals at 44.2 MMT, pulses at 23 MMT and oilseeds 32.1 MMT recorded increase of 5.5%, 6.6%, 14.7%, 40.4% and 27.1%, respectively, during 2016-17 over 2015-16. Similarly, the production of cotton increased by 10.3% and jute & mesta increased by 0.7% during the period. However, the production of sugarcane at 306.7 MMT declined by 12% during the period.

POLICY ISSUES

Fertiliser Industry continued to suffer due to inadequate budget allocations with large amount of unpaid subsidy dues carried forward from one year to the other. Yearly carry forward amount of subsidy have been about Rs.40,000 crores for the past few years. The interest cost alone on such pending bills comes about Rs.4000 crore per annum.

Urea industry further suffered due to non-payment of increased fixed cost as per Modified NPS III policy and other governance and policy issues.

In case of P & K fertilisers, NBS rates for N and P were reduced significantly for 2016-17. For K, it was reduced nominally. However, for sulphur, NBS rates were increased, The NBS rates for N, P, K and S was fixed at Rs.15.854, Rs.13.241, Rs.15.470 and Rs.2.044 per kg for 2016-17. Accordingly, NBS rate for DAP was fixed at Rs.8945 per tonne, SSP Rs.2343 per tonne, and MOP Rs. 9282 per tonne for 2016-17.

There has not been any development in regard to fixation of criteria for determination of reasonable MRP of P & K fertilisers. As per the notifications of NBS rates, prices of P & K fertilisers are open and fertiliser companies are allowed to fix MRPs at reasonable level. FAI represented to the government to clarify the definition of reasonable MRP. However, there has not been any development on this front till the end of 2016-17.

A few important issues of SSP industry still remain unaddressed by the government. The issues inter alia include i) Removal of restrictions on import of specified sources of rock phosphare, ii) payment procedure of SSP should be at par with other P & k fertilisers and iii) payment of notional freight to SSP industry.

OUTLOOK FOR 2017-18

POLICY ISSUES

The NBS rates for N, P, K and S have been fixed at Rs.18.989, Rs.11.997, Rs.12.395 and Rs.2.240 per kg for 2017-18. Accordingly, NBS rate for DAP has been fixed at Rs.8937 per tonne, SSP Rs.2166 per tonne, and MOP Rs. 7437 per tonne for 2017-18. The NBS rates for NP/ NPK grades of fertilisers have been in the range between Rs. 5729 per tonne and Rs. 8676 per tonne. There is large reduction in rate for MOP from Rs. 9282 per tonne in 2016-17 to Rs. 7434 per tonne in 2017-18. Subsidy on DAP remained more or less at the same level.

Government of India implemented Goods & Services Tax (GST) w.e.f 1st July, 2017. Initially, GST council proposed GST rate for fertilisers at 12%. Subsequently, the GST rate for fertiliser was reduced to 5% after representation made by FAI and the Fertiliser industry.

However, the rate of GST on major raw materials, intermediates like phosphoric acid, ammonia, sulphur recovered from refineries and naphtha continued to be at 18%. There is need for refund of unutilized input tax credit expeditiously to save the industry from the interest cost on large amount of blocked input tax credit.

SOUTH-WEST MONSOON

Rainfall during 1st June to 30th August 2017 was 3% below the long period average (LPA). Out of a total of 36 meteorological sub-divisions, 30 sub-divisions received excess/ normal rainfall and remaining 6 sub-divisions received deficient rainfall. Total actual rainfall received during 1st June to 30th August, 2017 was 683.6 mm as against the normal rainfall of 707.4 mm during the period. About two-third of the total number of districts received normal to excess rains during the period.

Live storage in 91 major reservoirs was 86.63 BCM as on 31st August, 2017, as against 103.72 BCM on the corresponding date in the previous year. Current year's storage is 84% of the last year's level and also 84% of the normal storage.

CROP SITUATION

As per latest information available on sowing of kharif crops, around 97 per cent of the normal area of full kharif season has been sown upto 1st September, 2017. Area sown under all kharif crops taken together has been reported to be 102.81 Mha at All-India level during 1st April to 1st September, 2017 as compared to 103.43 Mha in the corresponding period of last year.

FERTILISER AVAILABILITY

The year 2017-18 marked a beginning with adequate stocks of fertilisers. Good monsoon led to brisk sale of fertilisers, for DAP and MOP, in particular. As per the latest reports available for the period April/August 2017, sale of urea, DAP and MOP increased by 3.4%, 15.7% and 50.7%, respectively, over April/August 2016. However, sale of NP/NPK fertilisers registered a marginal decline of 0.7% during the period. Backed by good monsoon, overall sale of fertilisers and consumption are likely to increase during the remaining period of the kharif 2017.

PROSPECTS OF FERTILISER CONSUMPTION

Keeping in view higher anticipated consumption in kharif 2017 and assuming adequate water storage in the reservoirs at the beginning of rabi 2017-18 with moisture availability in the soil, overall consumption of fertiliser nutrients during the full year 2017-18 is expected to show a good increase over the previous year's level.