

NBS policy revision salutary for kharif

CRISIL impact note



The development

- This April, domestic non-urea fertiliser manufacturers undertook price hikes for di-ammonium phosphate (DAP) and other complex fertilisers because of an increase in raw material prices. As a result, the retail price of a bag (50 kg) of DAP rose to Rs 1,900 compared with Rs 1,200 prevailing until March
- Consequently, the government revised the nutrient-based subsidy (NBS) rates for fertilisers until the end of the kharif season (October 31, 2021) this fiscal
- Then on May 19, the government announced its plan to increase subsidy on DAP to Rs 1,200 per bag from Rs 500 per bag. And on May 20, it also hiked the NBS rate for phosphorous (P) content to Rs 45.324 per kg from Rs 14.888 per kg earlier. The revised NBS rates for DAP and other complex fertilisers will be effective May 20 through October 31 this year. The NBS rates for other nutrients such as nitrogen (N), potash (K), and sulphur (S) remain unchanged

Revised NBS rates

Nutrient	NBS rates FY22 (per kg)	Revised NBS rate FY22* (per kg)
N	18.789	18.789
P	14.888	45.324
K	10.116	10.116
S	2.374	2.374

Note: * - Applicable between May 20 and October 31, 2021

Source: Department of Fertilisers, CRISIL Research

- Thus, subsidy on DAP has been raised by 137%, and for other complexes by up to 204%, based on the type of complex fertiliser
- Farmers will now be able to purchase a bag of DAP (50 Kg) at old rates (Rs 1,200) with effect from May 20, 2021, compared with Rs 1,900 seen in April
- All fertilisers with P content would be eligible for higher subsidy during the aforementioned period. The government has also included two complex fertilisers NPK (8-21-21) and NPK (9-24-24) under the NBS scheme. *Please check the annexure for details on increase in subsidy for various types of fertilisers*

CRISIL Research's view

- International prices of DAP have been increasing over the past few months. The landed price of imported DAP hit a multi-year high of \$555 per tonne in April, up 37% compared with ~\$404 per tonne in January 2021
- The spike was due to an increase in input costs. The primary raw materials used to manufacture DAP are phosphoric acid and ammonia, whose prices increased 27% and 91%, respectively, between January and April, given robust demand from major agrarian economies

- Consequently, the cost of DAP production for non-urea fertiliser companies surged to Rs 2,400 (50 kg bag) in April from Rs 1,700 per bag in January 2021
- Taking cue from the global market, domestic non-urea fertiliser manufacturers decided to pass on the price hike to farmers. Consequently, retail DAP prices for domestic farmers increased ~58% to Rs 1,900 per bag¹ in April from Rs 1,200 per bag¹ in January, after considering a subsidy of Rs 500 per bag
- Although DAP is used for all crops, in India, it is used the most for paddy (key crop in the kharif season) and wheat owing to their higher acreage. Typically, one bag of DAP and three bags of urea are used per acre of paddy, while for wheat, one bag each of DAP and urea are used. As a result of the hike in DAP prices, the cost of fertiliser usage for farmers was likely to increase by 36% per acre. Likewise, input costs for other crops would also have surged

Cost of production for one acre of paddy

January 2021 (Rs)		April 2021 (Rs)	
Cost of three bags (45 kg) of urea	726	Cost of three bags (45 kg) of urea	726
Cost of one bag (50 kg) of DAP	1,200	Cost of one bag (50 kg) of DAP	1,900
Total cost	1,926	Total cost	2,626
Total increase in cost of fertilisers usage			36.30%

Source: CRISIL Research

- Last fiscal, demand for non-urea fertilisers increased ~11% on-year, supported by increased marketing activities by companies, implementation of the soil health card scheme, and government support in the form of higher minimum support price, increased procurement, incentives, apart from back-to-back excess monsoon seasons. This fiscal, we expect the government's decision of providing phosphatic fertilisers to farmers at last year's prices to benefit the non-urea fertilisers segment
- The government's announcement of the change in NBS rate was just in time for the upcoming kharif season, which takes off in June with the onset of monsoon. As April and May are lean months for fertiliser demand, the brunt of the price increase was not felt by many farmers
- With this move, the government is likely to spend an additional subsidy of Rs 14,775 crore this fiscal, taking the overall fertiliser subsidy outlay to Rs 94,305 crore from the earlier budgeted Rs 79,530 crore. Of the recently announced Rs 14,775 crore excess subsidy, Rs 9,125 crore and Rs 5,650 crore would be spent on DAP and other complex fertilisers, respectively
- Subsidy arrears as of April 1, 2020, pertaining to indigenous P&K fertilisers, indigenous urea, and city compost were cleared by the government as on March 23, 2021. The carry-over liabilities with respect to imported P&K fertilisers amounting to Rs 106.19 crore, and imported urea amounting to Rs 84.71 crore were to be cleared by the end of March 2021. Hence, we do not foresee any major concern over payment of incremental subsidy as yet. However, any delay in disbursement of the budgeted subsidy amid the second Covid-19 wave remains a key monitorable. The impact on receivables of non-urea fertiliser players remains a monitorable, too

¹ One bag of 50 kg

Annexure

Subsidy available for P&K fertilisers

(Rs per metric tonne)

Fertiliser grades	FY22	Revised FY22	Change	Share in overall fertiliser consumption (FY21)
DAP:(18-46-0-0)	10,231	24,231	137%	17.7%
MAP:(11-52-0-0)	9,809	25,635	161%	NA
TSP:(0-46-0-0)	6,848	20,849	204%	NA
MOP:(0-0-60-0)	6,070	6,070	0%	5.1%
SSP:(0-16-0-11)	2,643	7,513	184%	6.7%
16-20-0-13	6,292	12,379	97%	0.4%
20-20-0-13	7,044	13,131	86%	7.4%
20-20-0-0	6,735	12,822	90%	0.3%
28-28-0-0	9,430	17,951	90%	1.0%
10-26-26-0	8,380	16,293	94%	3.6%
12-32-16-0	8,380	18,377	119%	2.2%
14-28-14-0	8,215	16,737	104%	NA
14-35-14-0	9,258	19,910	115%	0.7%
15-15-15-0	6,569	11,134	69%	0.9%
17-17-17-0	7,445	12,619	69%	0.1%
19-19-19-0	8,321	14,103	69%	0.1%
20.6-0-0-23	4,398	4,398	0%	1.1%
16-16-16-0	7,007	11,876	69%	0.4%
15-15-15-9	8,321	11,348	36%	0.1%
24-24-0-0	8,082	15,387	90%	0.4%
24-24-0-8	8,002	15,387	92%	0.1%
14-28-0-0	6,799	15,321	125%	0.0%
8-21-21	NA	13,145	n.m.	NA
9-24-24	NA	14,996	n.m.	NA

NA – not applicable, n.m. – not meaningful

Source: Department of Fertilizers, CRISIL Research

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