

One impact of One Nation, One Fertiliser scheme is margin squeeze

Impact note

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Following the One Nation One Fertiliser (ONOF) scheme, all subsidised fertilisers will now be sold under the 'Bharat' brand across India.

With this, the government intends to reduce the criss-cross movement of fertilisers (urea, di-ammonium phosphate, muriate of potash have fixed nutrient content as specified under the Fertiliser Control Order, which does not change with brands) that will eventually help reduce freight subsidy bills and improve the availability of fertilisers.

This policy is expected to impact farmers, distributors, manufacturers and the government itself. Our interactions with farmers across the country suggest they prefer certain brands, but overall, their brand loyalty is weak.

In contrast, farmers don't switch brands easily when it comes to pesticides and seeds.

In case of fertilisers, farmers quickly go for alternatives if their preferred brand is not available on time.

Distributors, while acknowledging low brand loyalty, say certain fertiliser brands have built very strong trust among the farming community, so implementation of the new scheme might be a challenge initially.

For manufacturers, ONOF is likely to adversely impact margins. They will have to build strong marketing and promotional strategies to maintain their share and grow, which will add to selling expenses and thus impact margins.

Additionally, our industry interactions suggest that basic fertiliser brands have been used as umbrella brands to push forward premium and specialty fertilisers to farmers.

With the launch of ONOF, charging a premium for certain fertilisers will not be that easy, and new launches will be a more costly affair as there would be no established brand base in the market to promote new products.

Thus, ONOF implementation will adversely impact the sales of high-margin products and lead to higher marketing expenses and lower margins for players.

However, any notification regarding change in lead distance will be a key monitorable to assess the impact on revenue, logistics efficiency and fertiliser availability across the country.

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