

INDIAN FERTILISER INDUSTRY

**Higher subsidy rates to improve
profitability for NPK fertilisers in
FY2026**

APRIL 2025





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The revised nutrient-based subsidy (NBS) rates notified for kharif season of FY2026 may result in profits on DAP imports to some extent (assuming Rs. 3,500/MT special package continues). This should help addressing the availability challenges.

Also, the increase in phosphorus and sulphur NBS rates should help offset the increase in phosphoric acid and sulphur prices, aiding profitability of other NPK grades as well.

Profitability for urea players, on the other hand, is expected to remain steady.



- **The Government of India (GoI) has revised the nutrient-based subsidy (NBS) rates for kharif FY2026.** There has been an increase in subsidy of phosphorus to Rs 43,600/MT from Rs 30,800/MT, while that of sulphur has also been escalated. This is expected to improve the contribution margins of diammonium phosphate (DAP) as well as other NPK (nitrogen phosphorus potassium) grades.
- The **systemic inventory for di-ammonium phosphate (DAP) has been low** due to its high landed cost and inadequate NBS rates, translating into losses on DAP imports. Thus, many farmers switched to other grades of NPKs like NP20, triple superphosphate (TSP), etc. Availability of Muriate of potash (MOP) has been improving steadily, while that of other fertilisers remains at comfortable levels.
- **The Government had introduced the Rs 3,500/MT special package in April 2024** to address the profitability and availability challenges in DAP. While this helped improve the profitability on DAP imports during H1 FY2025, the subsequent rise in international DAP prices, along with INR depreciation turned imports unprofitable again. Now, with the subsidy on DAP increasing, assuming this special package continues, DAP is likely to report positive contribution margins.
- **Muriate of potash (MOP) continues to be profit-making.** The MOP continues to remain profit-making at current retail prices and subsidy levels.
- **Pooled gas prices remain largely steady.** Gas costs remain a pass-through for urea players. Since pooled gas prices have remained stable, the profitability of urea players is expected to remain steady.
- **The GoI has made a budgetary allocation of Rs. 1.68 trillion towards fertiliser subsidy for FY2026**, including Rs. 1.19 trillion for urea and Rs. 0.49 trillion as NBS, which is likely to face a minor shortfall, however, ICRA expects the Government to make additional allocations. **The overall subsidy pay-outs have remained timely**, keeping the working capital intensity of the industry under check.

Revised subsidy rates from H1FY2026; increase in phosphorus and sulphur

Exhibit: NBS rates

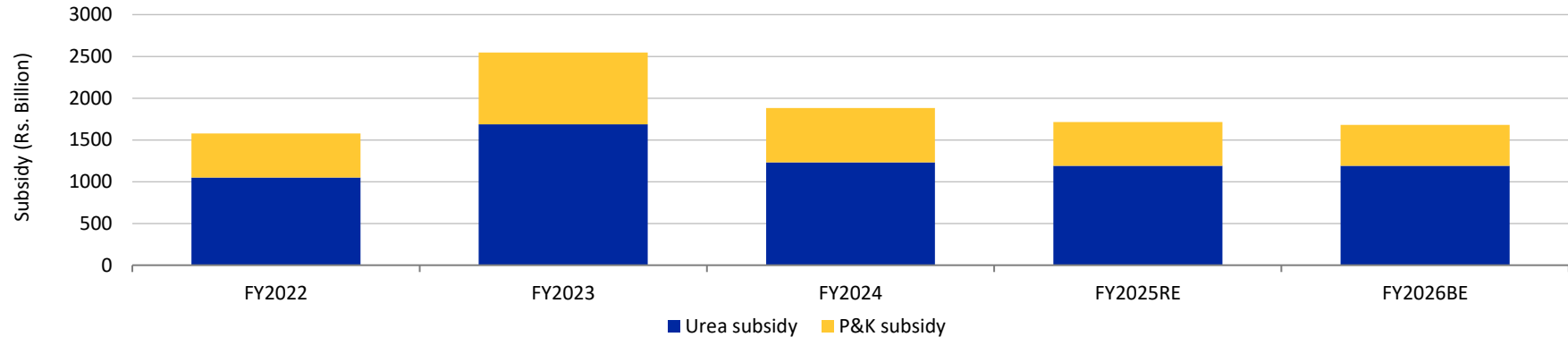
Rs./MT	May-21 to Sep-21	Oct-21 onwards*	H1 FY2023	Q3 FY2023	Q4 FY2023	H1 FY2024	H2 FY2024	H1 FY2025	H2 FY2025	H1 FY2026
N	18,789	18,789	91,960	98,020	99,270	76,490	47,020	47,020	43,020	43,020
P	45,323	45,323	72,740	66,930	49,940	41,030	20,820	28,720	30,800	43,600
K	10,116	10,116	25,310	23,650	25,700	15,910	2,380	2,380	2,380	2,380
S	2,374	2,374	6,940	6,120	2,840	2,800	1,890	1,890	1,760	2,610
Product Subsidy										
DAP (18:46:0)	24,231	32,991	50,103	48,431	40,841	32,641	22,541	21,675	21,911	27,800
NPK (20:20:0:13)	15,154	17,154	33,842	33,786	30,211	23,868	13,814	15,394	14,993	17,663
NPK (10:26:26)	16,293	18,293	34,690	33,353	29,593	22,453	10,734	12,788	12,928	16,257
NPK (12:32:16)	18,377	20,377	38,362	36,964	32,005	24,854	12,686	15,214	15,399	19,495
MOP	6,070	6,070	15,186	14,190	15,420	9,547	1,428	1,428	1,427	1,428
SSP	7,513	7,513	7,513	7,513	7,513	7,513	3,540	4,804	5,121	7,263

- For the recently announced NBS rates for the kharif season of FY2026, the subsidy rates have been increased for phosphorus and sulphur. This should help with the profitability of various NPK grades and alleviate some of the DAP availability challenges.
- With the higher subsidy on DAP and assuming the special package of Rs. 3.,500/MT continues, the DAP imports have turned profitable on contribution margins front. Overall, with the subsidy on phosphorus and sulphur increasing, the profitability on other grades of NPKs are also expected to improve.

Source: DoF, ICRA Research; *NBS rates were kept unchanged; although additional Rs. 438/50 kg bag of DAP and Rs. 2,000/MT for NPK fertilisers was provided by GoI;

FY2026 budgetary allocation to marginally trail requirements; additional allocations likely

Exhibit: Trend in subsidy budget (in Rs billion)

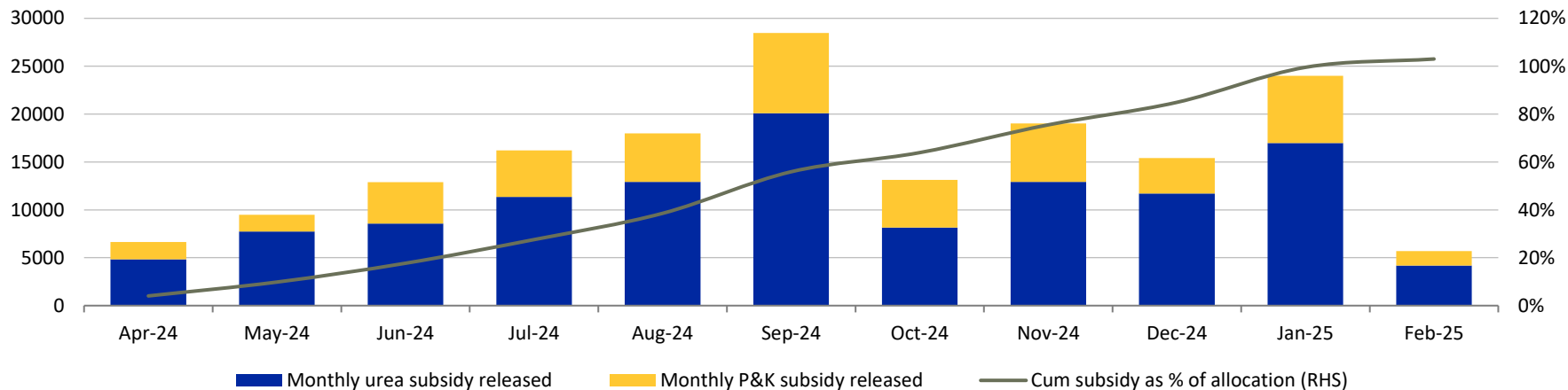


Source: DoF, ICRA Research

- Approximately Rs 1.69 trillion has been paid out in urea and NPK subsidies in 11M FY2025 vis-à-vis the revised budgetary estimates of Rs. 1.71 trillion.
- As per the revised estimate for FY2025, Rs. 1.19 trillion has been allocated towards urea subsidy while Rs. 0.52 trillion has been budgeted towards NPK subsidy. For FY2026, urea subsidy budget continues at Rs. 1.19 trillion while NPK budget has been revised downwards to Rs. 0.49 trillion.
- For the kharif season of FY2026, Rs 0.37 trillion has been allocated, which represents approximately 75% of the NPK budget for the full year. ICRA anticipates that the actual requirement will modestly exceed the allocation and that the GoI will make additional allocation to ensure timely subsidy payments.

Subsidy inflow was steady in FY2025

Exhibit: Trend in subsidy release in 11M FY2025 (Rs. crore)

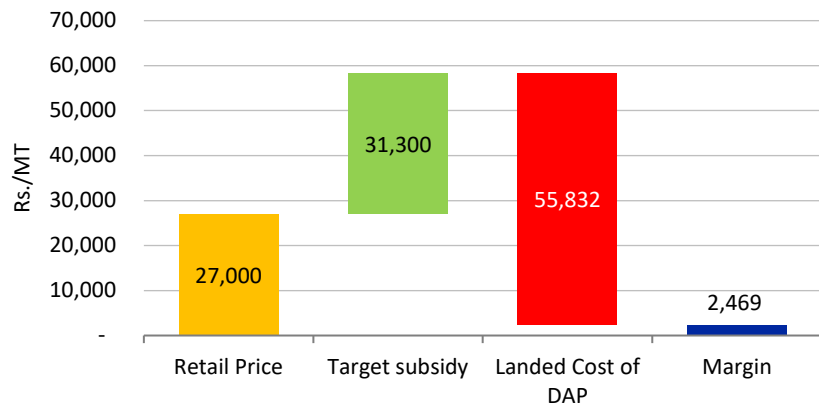


Source: DoF, ICRA Research

- Subsidy pay-out was largely timely in 11M FY2025, which kept the debt levels and interest cost of fertiliser companies under check. The subsidy pay-outs till Feb 2025 have been around Rs. 1.69 trillion against the Revised Estimates of Rs. 1.71 trillion for FY2025.
- The subsidy receivables from the GoI are typically around 3-4 weeks.

Higher NBS rates to improve profitability of DAP; MOP profitability remains healthy

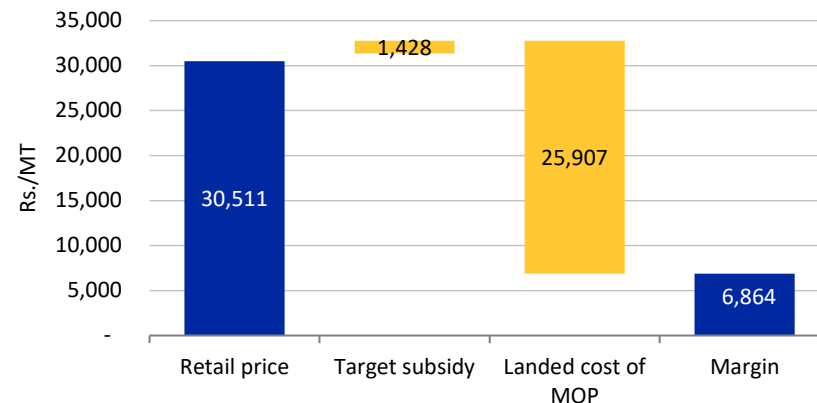
Exhibit: Profitability on DAP imports as per revised NBS rates for H1FY2026



Source: DoF, ICRA Research

DAP = \$633 plus handling charges; subsidy includes the special package

Exhibit: Profitability of MOP imports as per revised NBS rates for H1FY2026



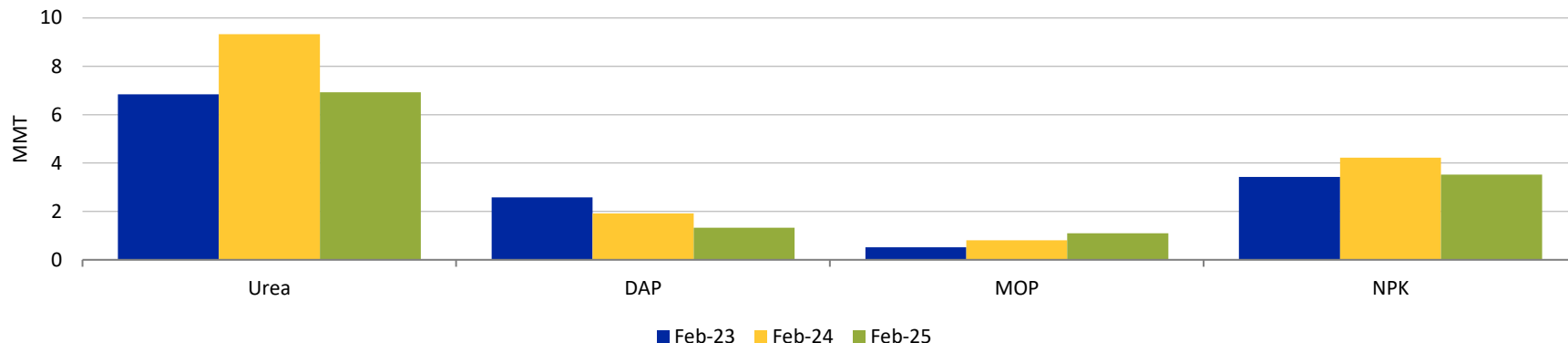
Source DoF, ICRA Research

MOP = \$283 plus handling charges

- With the increase in NBS rates, the profitability on DAP imports has turned positive to around Rs. 2,500/MT, assuming the Rs. 3,500/MT package is continuing. In case this additional package is disallowed/discontinued, the DAP imports will make contribution losses of Rs. 1,000/MT.
- MOP import profitability remains stable given a healthy MRP and adequate subsidy.
- For other NPKs, there has been an increase in subsidy and, thus, profitability on certain grades of NPK is likely to witness an improvement.

Despite some moderation, inventory levels remain comfortable

Exhibit: Trend in fertiliser stock availability in India

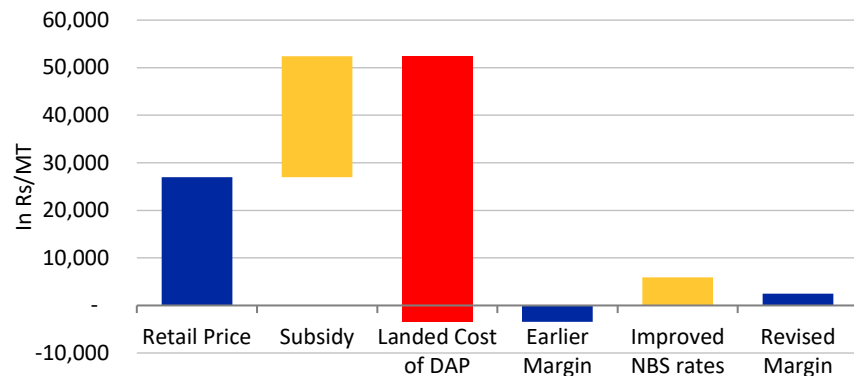


Source: DoF, ICRA Research

- With the steep rise in international prices and constrained availability in the global market, the systemic inventory for fertilisers declined to multi-year lows in FY2022. However, the inventory levels since then have been on an improving trend and availability has not been much of a challenge.
- For DAP, availability has been an issue considering the inadequate NBS rates, resulting in losses on DAP. Further, the conflict in West Asia has resulted in shipments being routed through a longer route from the Cape of Good Hope, South Africa instead of the Red Sea, adding to the availability challenges. With the revised NBS rates, the availability should improve going forward.

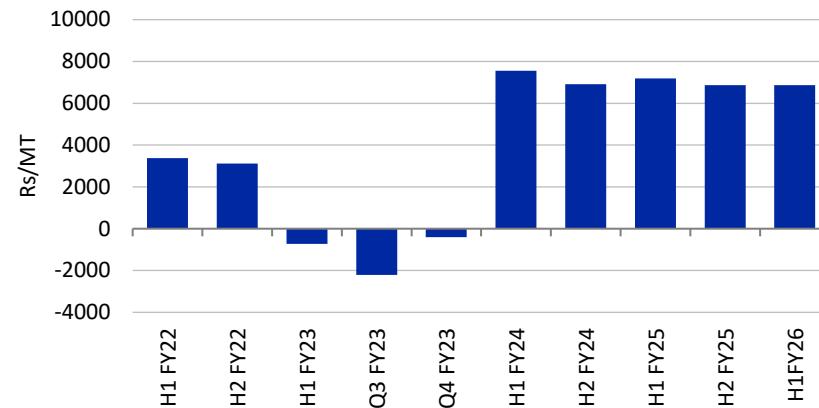
Imported DAP to turn marginally profitable; MOP profitability remains healthy

Exhibit: Expected margins on DAP import



Source: DoF, ICRA Research

Exhibit: Trend in MOP contribution margins

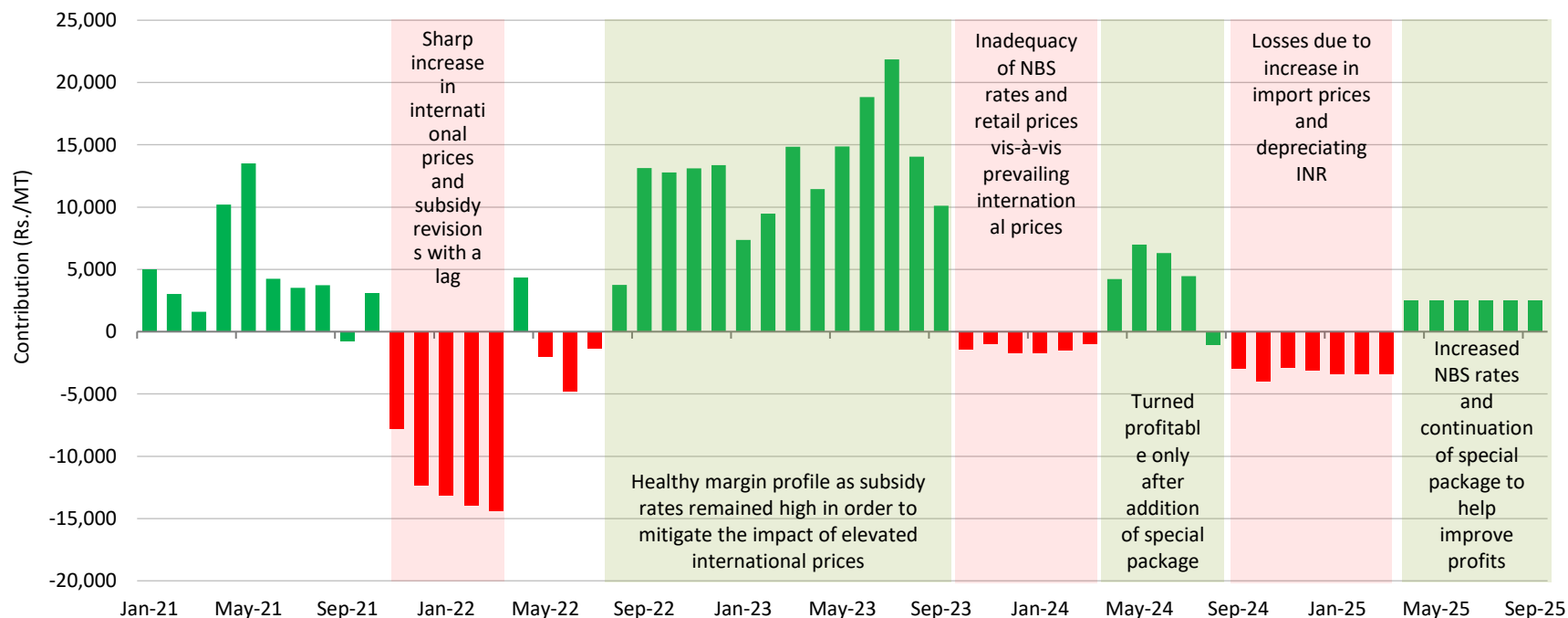


Source: DoF, ICRA Research

- The revised NBS rates have resulted in additional subsidy of Rs. 5,889/MT on DAP, which along with the expectation of continuation of the additional package of Rs. 3,500/MT would result in positive contribution margins for DAP. While the margins will continue to remain relatively low, this could help alleviate some of the profitability challenges for the importers.
- For MOP, importers continue to earn healthy profit margins, owing to the moderated international market prices along with sufficient subsidy and MRP.
- For other NPKs, the upward revision in subsidy is likely to result in consequent improvement in margins.

Higher NBS rates to help improve profitability of DAP imports

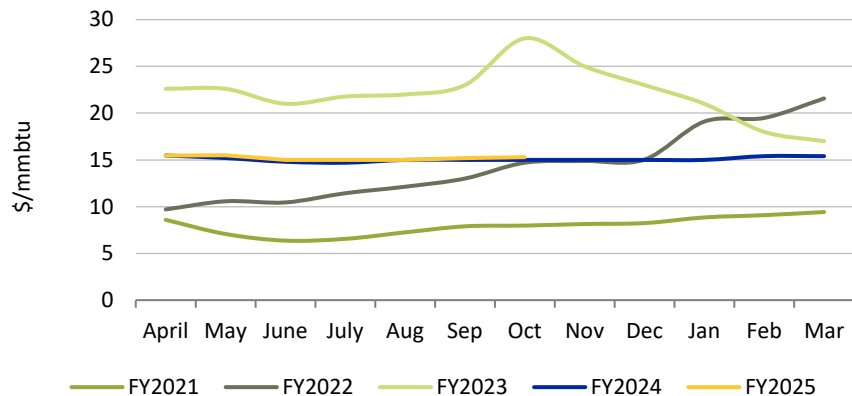
Exhibit: Trend in DAP contribution margins



Source: DoF, ICRA Research

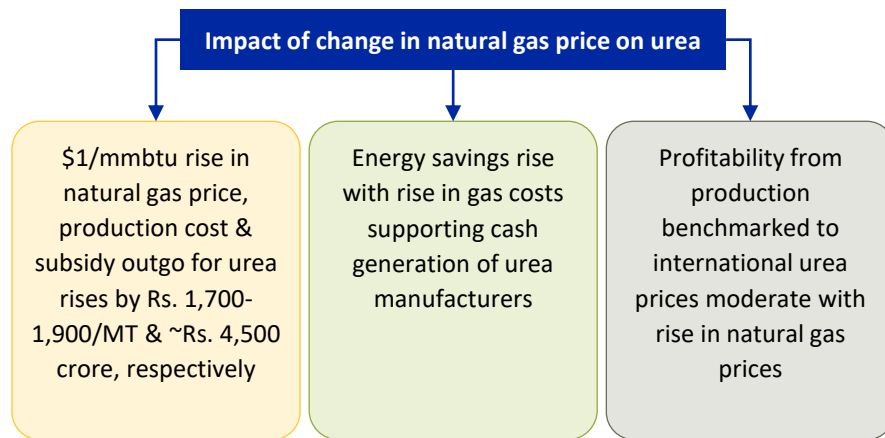
Pooled price for urea remain steady

Exhibit: Trend in pooled price for urea manufacturers



Source: Refinitiv, Department of Fertilisers, ICRA Research






Exhibit: Impact of natural gas price change



- Pooled gas prices have remained steady over the last few quarters at around \$15/mmbtu, after reaching a peak of \$27-28/mmbtu in September-October 2022.
- Gas cost is a pass-through for urea players, and higher gas costs lead to higher energy savings for energy-efficient plants and, hence, better profitability; albeit at higher working capital requirements and higher subsidy requirement from the GoI.
- However, elevated pooled gas prices, along with moderation in international urea prices, can constrain the profitability for IPP-benchmarked production.



FY2026 Outlook – Stable

Fertiliser Sales Volumes	International Prices	Operating Margins	Debtor Days	Interest Coverage
				
~1-3% YoY growth in FY2026 Sales volumes are expected to grow 1-3% YoY in FY2026, in line with long-term trends.	Steady price regime expected Finished fertiliser prices, as well as associated raw materials, have largely remained steady. However, of late, some of the raw materials and finished fertilisers (especially DAP) have witnessed some price uptrends.	~6-8% The profitability for ICRA's sample set improved in FY2025, largely driven by healthy contributions for some grades of NPKs. For FY2026, the profitability is expected to improve from FY2025 levels with hike in NBS rates. For the urea segment, profitability is likely to remain steady amid stable gas prices.	50-60 days ICRA anticipates the subsidy budget for FY2026 to minorly trail the requirements and expects the GoI to release funds in a timely manner, thereby not allowing these levels to escalate materially for a sustained period. Further, ICRA also believes GoI to make timely additional allocations to meet the shortfall.	6.0-8.0x Interest coverage is likely to remain comfortable.

Rating distribution for ICRA-rated entities in the fertiliser sector

Exhibit: Distribution of long-term ratings

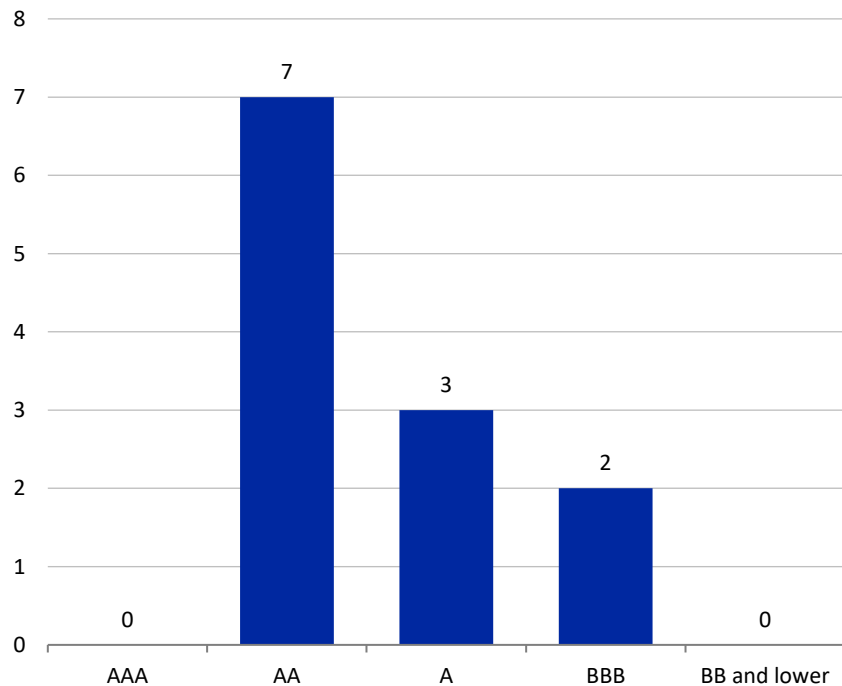
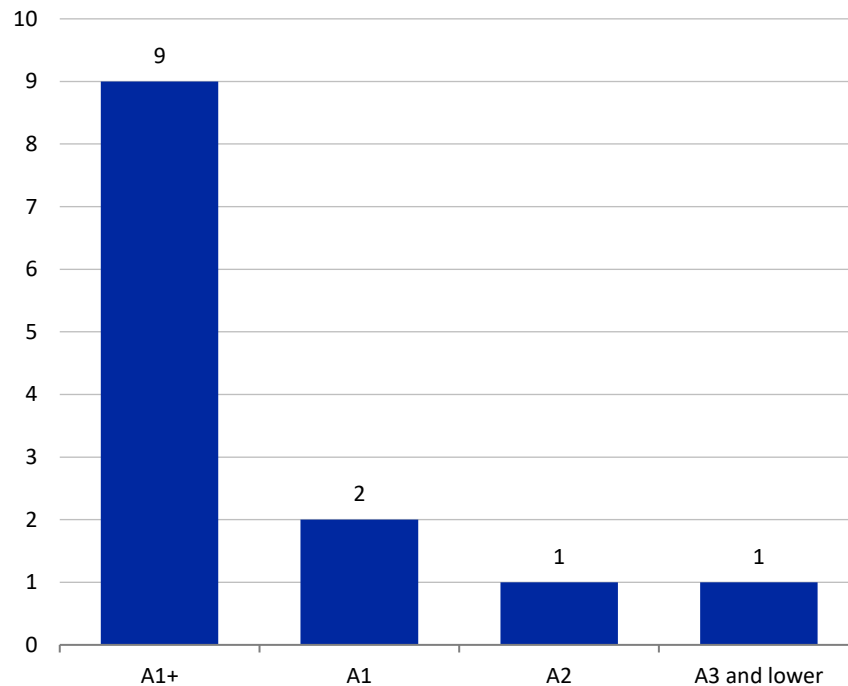


Exhibit: Distribution of short-term ratings



Note: ICRA rates 14 entities in the fertiliser industry with two entities having a rating only on short-term scale and one entity having a rating only on long-term scale

List of ICRA-rated entities in the fertiliser sector

Company Name	LT rating	ST Rating	Outlook	Last rating action
Basant Agro-Tech (India) Limited	[ICRA]BBB	[ICRA]A3+	Stable	Rating downgraded; outlook revised to Stable in Feb 2025
Chambal Fertilisers & Chemicals Limited		[ICRA]A1+		Rating reaffirmed in Jan 2025
Deepak Fertilisers & Petrochemicals Corporation Limited	[ICRA]AA-	[ICRA]A1+	Positive	Rating reaffirmed and outlook revised to positive in Feb 2025
Indian Farmers Fertiliser Cooperative Limited	[ICRA]AA+	[ICRA]A1+	Stable	Rating reaffirmed in Dec 2024
Indorama India Private Limited	[ICRA]AA-(CE)	[ICRA]A1+ (CE)	Stable	Rating reaffirmed in Sep 2024
Madhya Bharat Phosphate Private Limited	[ICRA]A+	[ICRA]A1	Positive	Rating reaffirmed in May 2024
Mahadhan Agritech Limited	[ICRA]AA-	[ICRA]A1+	Stable	Ratings reaffirmed in Feb 2024
Mosaic India Private Limited		[ICRA]A1+		Rating reaffirmed in Sep 2024
National Fertilizers Limited	[ICRA]AA	[ICRA]A1+	Stable	Ratings reaffirmed in May 2024
Paradeep Phosphates Limited	[ICRA]A+	[ICRA]A1	On watch with developing implication	Long term rating upgraded in Feb 2025; continues on rating watch with developing implications
Rama Phosphates Limited	[ICRA]A-	[ICRA]A2+	Negative	Rating reaffirmed in Feb 2025
Rashtriya Chemicals and Fertilizers Limited	[ICRA]AA	[ICRA]A1+	Stable	Ratings reaffirmed in Nov 2024
Talcher Fertilizers Limited	[ICRA]BBB+		Negative	Ratings downgraded; outlook revised to negative in Feb 2025
Yara fertilisers India Private Limited	[ICRA]AA-	[ICRA]A1+	Stable	Rating reaffirmed in Feb 2025



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