

INDIAN FERTILISER INDUSTRY

Import dependence to rise for urea
over next three years; capacity
additions need of the hour

FEBRUARY 2026





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With continued growth in urea consumption in the country, the dependence on imports is expected to go up over the next few years necessitating capacity additions.

Given the need for capacity additions, clarity on continuation of New Investment Policy-2012 (NIP-2012) is required for the urea plants that may be setup going forward to ensure adequate credit profile as the setting up of plant entails sizeable investment.



- Urea consumption has increased at a CAGR of 3.4% during FY2016 to FY2025 and is expected to grow at a similar pace over next five years. The consumption growth is supported by continued price differential with other fertilisers and farmers' affinity due to greening effect of urea.



- Domestic production had witnessed a 7.62 MMT increase from FY2019 to FY2025 with several new plants coming up under the New Investment Policy-2012 (NIP-2012). However, recently with closure of two plants, domestic production capacity has been limited at 30.6 MMTPA, indicating significant shortfall against urea demand of ~38 MMT in FY2025.



- Urea capacity additions in India are slated in FY2027 and FY2030 with cumulative capacity addition of 2.5 MMTPA. The capacity additions include Talcher Fertiliser's coal gasification-based urea plant and recently announced Assam Valley Fertiliser Corporation Limited's plant in Assam.



- Going forward, the import dependence is expected to rise to ~30% of India's total consumption by FY2030. Given that India imports urea from China and West Asian countries, the imports remain exposed to geopolitical risks.



- Globally, urea prices have been highly volatile in recent periods, and with only limited capacity additions expected over the next five years (ex China), this volatility is likely to persist. The export of urea out of China remains under tight control of the Government, which adds to the uncertainty.



- Several industry incumbents have shown their intent to set up urea plants and are awaiting approvals from Gol. Since the execution of these projects will take 3.5-4 years, clarity on continuation of NIP-2012 is essential to ensure import dependence remains in check over the medium term.



- The capital outlay for a 1.27-MMTPA urea project is ~\$1.2 billion for a greenfield project and ~\$1.0 billion for a brownfield project. The project economics remain healthy under NIP-2012.



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