

INDIAN FERTILISER INDUSTRY

**Downward revision of NBS rates for
rabi 2023 to impact profitability of
phosphatic fertiliser players**

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The subsidy announced by the Gol under the Nutrient Based Subsidy (NBS) scheme for the ongoing rabi season has been revised downwards following the softening in input prices and finished fertiliser prices during H1 FY2024. As the prices of key inputs and finished fertilisers in the international markets have started to rise again, the revised subsidy rates are likely to exert pressure on the contribution margins of phosphatic fertilisers at current prices. On the subsidy front, with the additional supplementary grant, ICRA expects the total requirement to be largely in line with the allocation.



- **Retail sales for urea, DAP, NPK and MOP increased by 7.8%, 19.6%, 6.4% and 21.3% YoY respectively in 7M FY2024.** Thus, the overall growth of fertiliser volumes was around 12.6% for 7M FY2024. Fertiliser sales volumes are expected to increase by ~1-3% YoY in FY2024.



- **The systemic inventory for fertilisers remain at comfortable levels with improved availability and moderation in prices;** after declining to multi-year lows in FY2022, with the steep rise in international prices and constrained availability in the global markets.



- **The Gol revised the nutrient-based subsidy (NBS) rates downwards** for the rabi season for the key nutrients, Nitrogen (N), Phosphate (P), Potash (K) and Sulphur (S), in line with the fall in international fertiliser and key raw material prices in H1 FY2024.



- **With the recent spike in key input prices and moderation in NBS rates, the profitability of DAP are to remain under pressure at prevailing prices.** DAP subsidy has been reduced by 31% for the 2023-2024 rabi season amid reduction in international prices during the 2023 kharif season.



- **The pooled gas prices also moderated considerably from H2 FY2023.** Gas costs remain a pass-through for urea players, although lowering of the same impacts the profitability of energy-efficient plants. This also results in reduction in working capital requirements for urea players.



- **The total subsidy requirement is expected to remain largely in line with the total allocation of Rs. 1.88 trillion (including the supplementary grant of Rs. 133 billion).** ICRA estimates the total subsidy requirements at Rs. 1.9-2.0 trillion for FY2024 and anticipates that the Gol will make additional allocation to ensure timely subsidy payments.



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