

**FERTILISER****Sector Impact – Positive****Background**

- India is the third-largest producer and consumer of fertilizers and the industry has traditionally been under government control with huge subsidies provided by the Government.
- The Government has decided to go ahead with the nutrient-based subsidy scheme for decontrolled Phosphatic and Potassic Fertilisers from April 1, 2010.
- Fixed subsidy based on the nutrient content in the fertiliser would be provided and the companies would be free to fix the farm gate price of the fertilisers.
- Retail price of Urea which has remained at Rs.4,830/- per ton for over a decade has been revised to Rs.5,310/- per ton with effect from April 1, 2010.
- Global fertiliser prices have dropped in 2009-10 as compared to 2008-09 and hence the subsidy outflow for FY10 is expected to be much lower.

**Budget Proposals**

1. The Budget has not come out with any specific proposals for the industry except that it has reiterated the fact that the nutrient-based subsidy scheme (announced a week earlier) would be implemented on decontrolled Phosphatic and Potassic Fertilisers with effect from April 1, 2010.
2. The Government has emphasised that it would ensure that nutrient-based fertiliser prices for the transition year 2010-11 will remain around the current maximum retail prices.
3. The new system is expected to move to the direct transfer of subsidies in the future.
4. Fertiliser subsidy for 2010-11 is budgeted at Rs.49,981 cr as compared to the revised estimate for 2009-10 at Rs.52,980 cr.
5. The budget seeks to avoid issue of subsidy through bonds and instead provide subsidy through cash.

## Duty Structure

(%)	Existing	Proposed
<b>CUSTOM DUTY</b>		
Urea	5	5
DAP	5	5
Complexes	5	5
Rock Phosphate	5	5

## Budget Impact: Industry

1. The increase in Urea prices is likely to result only in a marginally lower subsidy outflow on Urea for the Government. The industry may also have only a marginal impact as the increase in retail prices would get adjusted with the subsidy component from the Government. Moreover since the retail price in relation to cost of production is small, this increase in retail prices will result in only a marginal benefit in the working capital management of Urea companies. The increase in retail price of Urea may not have a large impact on the demand for Urea in the country.
2. The shift to the nutrient-based subsidy scheme is in line with the GoI view on balanced fertilisation. The NBS also indicates a market-based pricing scheme which indicated a step towards decontrol of the sector. Efficient players in the industry are likely to benefit as the subsidy component is likely to be fixed and this may in the long term encourage investments in the sector. At the same time the exact mechanics of the policy are yet to be announced and the actual impact remains to be seen.
3. The NBS would also encourage development of customised fertilisers in the market.
4. Virtually no increase in the overall subsidy outflow has been budgeted for 2010-11 as compared to 2009-10. However, the composition of subsidy towards indigenous urea has increased while the subsidy on decontrolled fertilisers is budgeted to come down.

### Budget Impact: Companies

Company	Products	% of Sales	Applicable Proposals	Overall Impact
IFFCO	Urea DAP/MAP Complex	11 78 11	1 to 5	▲
NFL	Urea	93	1	▲
GSFC Ltd	Urea DAP	4 55	1 to 5	▲
Chambal Fertilisers Ltd	Urea	52	1	▲
NFCL	Urea	88	1	▲
TCL	Urea DAP Complex	14 12 14	1 to 5	▲

#### Legends:

▲▲	Highly Positive	▼	Negative	◄►	Neutral
▲	Positive	▼▼	Highly Negative	∅	No Proposals