



India's Fertilizer Capacity to Expand

Gas supply commitment is the lone hitch for new investors

India's fertilizer industry is on a roll. Several fertilizer industry units have scripted plans to ramp up capacity. Six closed units of Hindustan Fertiliser Corporation Ltd and Fertiliser Corporation of India Ltd are on the revival path. Union Fertiliser minister M.K. Alagiri is active with a plan to get long-term commitment of gas supplies from Reliance Industries Ltd's Andhra offshore for these expansion plans.

Six firms have come forward to set up fertiliser plants besides ramping up their existing units. The total investment will be in the region of Rs 24,000 crore. All these companies are ready with technical and financial plans but the work on the projects cannot progress in the absence of firm commitment of gas supplies from a future date.

So the capacity expansion ultimately hinges on the firm commitment on fuel supply. The promoters of these projects are facing difficulty in extracting a firm commitment of fuel/feedstock supplies effective from a future date, to tie up funds for the projects. Without such a commitment from the government, the promoters cannot sign a bankable GSPA (gas sales & purchase agreement) and arrange funds from any lender.

The ministerial panel that was set up to

distribute 40 million cubic metres per day (mcmd) of incremental gas for various industries arising from the Andhra offshore did not make any commitment on prior allocation of gas to any industry just to enable financial closure of investments.

In September 09, the ministerial panel allocated firm supplies to existing fertilizer companies at 17 mcmd.

Balanced Application

Fertilizer demand in India will accelerate and there will be an increased focus on balanced fertilizer application. Says U.S. Awasthi, Managing Director of the Indian Farmers Fertiliser Co-operative Limited (IFFCO), "It is our firm belief that India's soil needs rejuvenation, along with soil management to cater to its micro nutrient and macro nutrient needs," IFFCO, formed in 1967 produced fertilizer for the cooperative sector in India.

IFFCO today produces more than 7 million tonnes of fertilizer annually and is tied up with 40,000 cooperative societies across India. The assets are worth more than US\$10 billion. The manufacturing facilities are spread across the country along with a series of joint ventures and overseas investments. The

government's restructuring of fertilizer subsidy regime is expected to enhance application of phosphate and potash-based fertilizers for boosting productivity. IFFCO is expanding its capacity to produce nitrogen-based urea fertilizer and has made investments in phosphate assets abroad to lock in supply.

Phosphate Up

India's fertilizer subsidy more than doubled in the 2008-2009 fiscal year to more than US\$25 billion with high raw material prices and tight nutrient supplies jacking up fertilizer costs. The sharp decline in Nitrogen and Phosphate fertilizer pricing has allowed the Indian government to slash the size of the subsidy this fiscal year. India secured major price cuts on its annual potash imports. Nitrogen, phosphate and potash are the three main macro nutrients in farming.

Over-application of nitrogen fertilizer and under-usage of phosphate and potash resulted from the skewed subsidy regime. In the future, demand for potash and phosphate will outpace the demand for nitrogen-based fertilizers. "If there is 3.2 percent average annual growth for other fertilizers, potash/phosphate demand is likely to grow around 4 percent on average," Awasthi said.