

# Russia-Ukraine Conflict Could Disrupt Supply Of Fertilisers In India

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Russia's invasion of Ukraine has pushed up prices of multiple commodities, in turn putting pressure on the cost of fertilisers. In addition, should the conflict be a prolonged one, the supply of fertilisers to India could also be impacted.

"India's direct trade exposure to Russia-Ukraine-Belarus is small at 1% of total exports and 2.1% of total imports, but its supply dependence on specific products is much higher," Nomura said in a March 4 research note.

In the case of fertilisers, 11%-11.5% of total imports are sourced from these countries, it said. "Within fertilisers, Russia accounts for over 17% of muriate of potash and approximately 60% of NPK (nitrogen, phosphorus, potassium) fertiliser imports."

## Price, Subsidy Impact

The first order of impact is being felt on prices.

The price of urea, the most widely used fertiliser in India, and diammonium phosphate, the second most widely used fertiliser, are up about 110% from a year ago, according to data for India from Bloomberg.

Fertiliser prices saw a steep rise in 2021, because of a rise in gas prices, strong demand from the United States, supply constraints and outages in the U.S. markets, said Varun Gogia, assistant vice president at ICRA. "The current geopolitical scenario around Russia and Ukraine has provided an additional fillip to prices," he added.

Much of this burden is borne by the government in India's case, which absorbs the increase via higher subsidies to protect the agriculture sector.

## According to ICRA:

For urea, prices are pegged at Rs 5,360 per tonne, a price that was last revised in 2013, according to data by ICRA. For diammonium phosphate, there is an informal cap of Rs 24,000 per tonne since the start of the current fiscal. However, muriate of potash prices rose to Rs 31,729 per tonne in January, a rise of 76% from the same quarter a year ago.

When the cost of production goes up, subsidies rise so that retail prices remain the same. To cover the gap would mean a substantial rise in subsidy, Gogia said.

**"The fertiliser subsidy bill, which was budgeted lower for 2022-23 by Rs 34,900 crore compared to the 2021-22 revised estimate, would require a significant upward revision, as the increased prices of petroleum distillates and gas would drive up the costs," said Govinda Rao, chief economic advisor at Brickwork Ratings.**

## Fertilisers: Retail Price Rise In India

Rs Per Tonne



Source: ICRA, Department of Fertilizers

Bloomberg | Quint

Devinder Sharma, an agricultural analyst said that prices of urea are entirely government-controlled and a significant part of the demand is met domestically. However, most of the requirement for DAP and MOP has to be imported and prices have largely been deregulated, he said.

However, according to Gogia, despite deregulation, the government maintains soft caps on prices. While retail prices are unlikely to see an impact of the surge, the manufacturers are only protected to an extent, he said.

## Are Supply Shortages In Sight?

Apart from the price impact, analysts are watchful about supplies.

India produced 368.2 lakh metric tonnes of fertilisers in the current fiscal up to January 2022, according to data by the Department of Fertilisers. This was a decline of 0.5% from the production in the previous fiscal in the same duration.

To meet domestic demand, India had to import 141.6 lakh metric tonnes of fertilisers in the current fiscal up to January 2022, data from the Department of Fertilisers shows.

## Fertilisers: How Much Did India Produce ?

In MMT

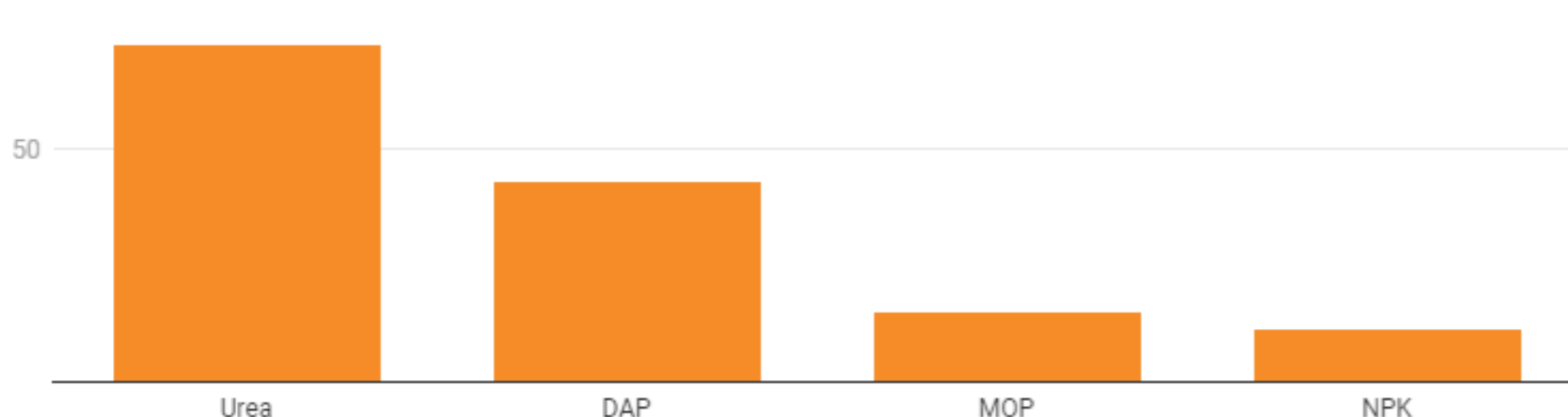
Production	10M FY2021	10M FY2022	% Change
Urea	209.9	210.2	0.2
DAP	33.6	34.4	2.2
Ammonium Sulphate	6.0	5.2	-13.7
Complex fertilizers	79.1	73.9	-6.6
Single Super Phosphate	41.4	44.6	7.8
<b>TOTAL</b>	<b>370.0</b>	<b>368.2</b>	<b>-0.5</b>

Source: ICRA, Ministry of Fertilizers

Bloomberg | Quint

## Fertilisers: How Much Did India Import?

In Lakh Metric Tonne Between April 2021- January 2022



Source: Department of Fertilizers

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The exposure to supply disruption risk is a cause for concern for the global and the Indian fertiliser industry as Russia has a meaningful share in the global supply of ammonia, potash and urea, while Belarus has a significant share in supply of potash, said a research note by Nirmal Bing Institutional Equities Research.

## Concern For Agriculture Sector

Inadequate availability of fertilisers poses a concern for the agriculture sector, as systemic inventory is significantly below historic levels across all key segments, said ICRA. This is on account of lower imports amid limited availability in the international market and elevated prices, ICRA added.

In addition, China too has clamped down on exports. India was looking at a multi-year deal for phosphatic fertilisers to strengthen supply, according to Gogia. The future of the deal remains uncertain now, he added.

However, some relief may be in sight.

India has commissioned three new urea plants with a combined capacity of 1.27 million tonnes, which are set to come on-stream by the first quarter of the next fiscal, Gogia said. "That, along with the government's agreement to source urea from OMIFCO of Oman should help strengthen supply."