

Fertilizer industry set for wave of investments of up to \$10 billion.

Mumbai: After at least a decade's hiatus, India's fertilizer industry is set for a wave of investments of up to \$10 billion (around Rs47,000 crore) as existing manufacturers seek to expand capacity and new project developers move in to take advantage of government policy initiatives and demand-supply mismatch.



Optimistic outlook: KBR's Steve Pringle says the company's technology business will earn 25% of revenue from India by 2015. Kedar Bhat / Mint

Global technology providers for fertilizer plants such as KBR Inc. of the US, Haldor Topsoe AS of Denmark and Saipem SpA of Italy are reinforcing their presence in India to gear up for the new build-up of capacity in a country where the last big fertilizer plant, built by Chambal Fertilisers and Chemicals Ltd, came up in 1999.

"Indian companies will take investment decisions to add about 7 million tonnes (mt) of urea over the next four to five years," says Ashok Chopra, vice-president at Saipem India, estimating the total investment required at \$8-10 billion.

Chopra says it costs up to \$1.25 billion to set up a 1.3 mt fertilizer plant. Saipem is supplying the technology and engineering expertise for Matrix Fertilisers and Chemicals Ltd's proposed plant in West Bengal. The plant will produce 3,850 tonnes of urea daily, using coal-bed methane as feedstock, to be supplied by the \$15 billion Essar Group. KBR is providing Matrix the technology to produce ammonia.

The industry is in a take-off mode, similar to what it experienced when GAIL (India) Ltd, then known as Gas Authority of India Ltd, built the HBJ (Hazira, Bijapur and Jagdishpur) pipeline in 1985-86 to transport gas to the hinterland where fertilizer plants were located, giving a fillip to fertilizer production, says Steve Pringle, senior vice-president for technology operations at KBR.

Pringle sees even business houses with zero experience in fertilizer manufacturing entering the sector, contributing to the expected flood of new investment. By 2015, KBR's technology business will earn 25% of revenue from India, he says.

Rising foodgrain consumption has fuelled demand for fertilizers in India, which depends on imports to meet most of its fertilizer requirements. The country relies on shipments from overseas for 21% of the urea, 67% of the phosphorous-based fertilizer and 100% of potash-rich fertilizer consumed in the country, according to the 'Indian Fertiliser Outlook 2010', a report released by Fitch Ratings India Pvt. Ltd in February.

"As large numbers of households see their incomes growing as a result of sustained rapid growth, their food consumption patterns are changing. Households are consuming more and more pulses, dairy products, vegetables and sugar," finance minister Pranab Mukherjee told Parliament in August.

“The entire agriculture system has to gear up to increase the productivity of food items,” he said.

Reliance Industries Ltd, India’s most valuable company and biggest by revenue, has evinced interest in entering the fertilizer industry.

Incumbents such as Indian Farmers Fertiliser Cooperative Ltd (Iffco), Krishak Bharati Cooperative Ltd (Kribhco), **Rashtriya Chemicals and Fertilizers Ltd**, Indo-Gulf Fertilizers and Chemicals Corp. Ltd, Chambal Fertilisers and Chemicals, Zuari Industries Ltd and Tata Chemicals Ltd have expressed interest in expanding capacity.

They have expressed interest in setting up units with a capacity of up to 1.15 mt per year at a combined cost of Rs28,000 crore if the government can make gas available at stable prices for 15 years, says a report by Tarun Surana of Sunidhi Securities and Finance Ltd.

The government’s new fertilizer policy, approved by the cabinet earlier this year, raised the price of urea by 10%. It adopted a nutrient-based subsidy programme for the fertilizer sector, replacing the earlier product pricing regime, and partially freed prices.

The policy had been designed partly with an eye on attracting more investments in urea manufacturing, but the flipside was that fertilizer use in the country is already heavily skewed toward urea. This is because this nitrogen-rich chemical is cheaper than potassium and phosphorus products; successive governments since independence have pushed the use of urea.

In farms across Punjab, the country’s bread-basket, farmers used 24 times more nitrogen-based fertilizer than potassium in the fiscal ended March 2009, according to the *Indian Journal of Fertilisers*.

India produced 21.1 mt of urea, 4.2 mt of DAP (diammonium phosphate) and 800,000 tonnes of complex fertilizers in fiscal 2010.

Still, in order to meet domestic demand, the country will have to import 11.6 mt of fertilizers, including 3 mt of urea this year, minister of state for chemicals and fertilizers Srikant Jena told Parliament in August.

To be sure, the government has, in recent years, been attempting to trim fertilizer subsidies, which surged from Rs12,695 crore in 2001-02 to Rs64,032 crore in 2009-10. The money should go to farmers directly rather than being pocketed by fertilizer companies, opponents of the subsidies say.

At the same time, foodgrain production improved only marginally from 1,734 kg/ha to 1,798 kg/ha last year, Jena told Parliament, adding that this shows “there is no positive correlation between fertilizer subsidy and agricultural productivity”.

Pringle exudes optimism that in five years, India could be a net exporter of urea, provided the promised investments take place.

One constraint to investment in the fertilizer sector has been inadequate availability of feedstock.

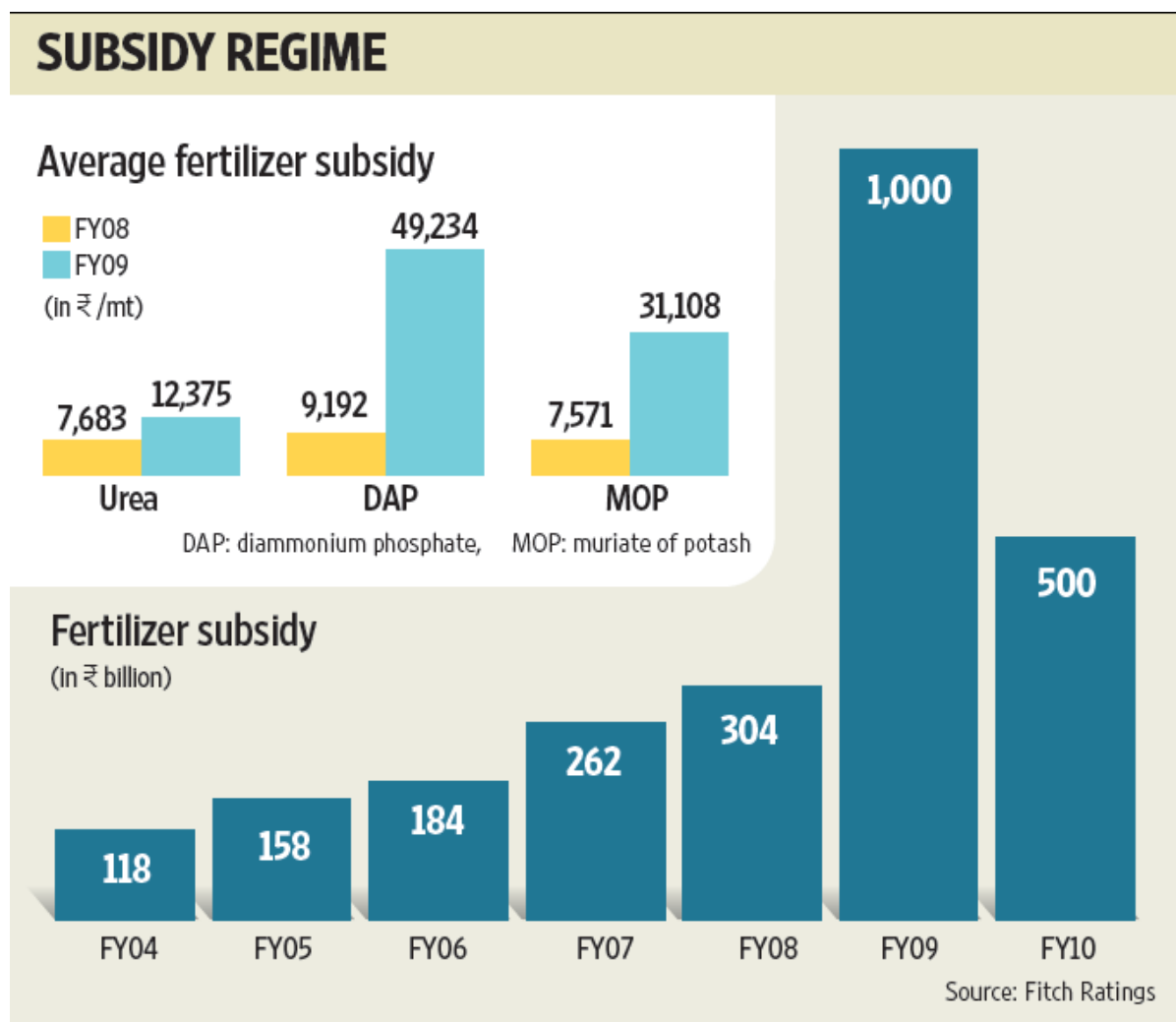
Fertilizer production requires natural gas, naphtha or furnace oil as feedstock and this input accounts for 70-80% of the total cost of production. Sixteen of the 28 functional urea plants in the country use natural gas; the rest use naphtha or furnace oil.

Against the industry’s demand of 42 million standard cu. m per day (mscmd) of natural gas, according to Delhi-based Fertiliser Association of India, only 28 mscmd is available to it.

“Nobody wants to invest Rs4,000-5,000 crore without any surety on the feedstock,” says Dilip Kishore Dutta, managing director of Haldor Topsoe India. “Hence, any new capacity expansion is happening only in a phased manner.”

That may change as big new gas discoveries go into production. Availability of natural gas is likely to increase in the country by 52% to 271.92 mscmd by 2013-14, according to oil minister Murli Deora. In 2009, fertilizer companies started receiving natural gas supplies from the Krishna-Godavari basin.

“Government is seriously engaged (on the fertilizer industry’s demand to allocate more natural gas),” says U.S. Awasthi, managing director of Iffco.



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