

## **Investors make a beeline for fertilizer cos**

- Shailesh Menon & Gaurav Pal, Mumbai

BULLS stormed fertiliser counters on Thursday cheered by the government's measures aimed at improving profits of key companies in the sector. Most of these stocks shot up between 5% and 15% following the policy announcement.

However, market watchers point out that although the policy may be a god send for certain fertiliser firms (especially those making phosphate-based fertilisers), the subsidy bill of the government is likely to shoot up for this fiscal. Investors should watch out for how much of this increased subsidy is compensated through bonds and how much through cash, analysts warn.

The Union Cabinet approved the new fertiliser policy, where the price of fertilisers based on phosphorus and potash will be linked to import price parity. The cabinet has also announced additional incentives for fertilizer manufacturers producing DAP as an end product. 'The ministry has adopted an incentive-based approach. The idea to link prices of phosphorus-based fertilisers to import prices is to encourage manufacturers to increase their production. The price of imported phosphorus-based fertilisers is higher than the locally manufactured product' said PINC fertiliser research analyst Aswini Agarwal 'Incentives will also be given to fertiliser manufacturers producing DAP as an end product. This is an important decision, considering the fact that agriculture sector is staring at a stiff DAP fertiliser shortage of 2.5 metric tones' he added.

India's overall dependence on imported DAP and urea has increased steadily in recent years. According to a recent CSII report, in 2007-08, India imported around 6.9 million tonne of urea, an increase of 47% over import levels in the previous year. The country's increasing dependence on imported urea has been on account of stagnant domestic production; consumption, on its part; has also grown steadily.

DAP imports meet a significant 37% of India's total demand, despite a marginal reduction in import levels to 2.7 million tonne in 2007-08 from 2.9 million tonne in 2006-07. The problems regarding increasing imports have been aggravated by substantial hikes in global prices. Global DAP prices increased to \$ 12220 per tonne in April 2008 from \$435 per tonne in March 2007.

"The government is moving from material-based subsidy to nutrient-based subsidy. This shift in approach will help fertiliser manufacturers with more reimbursement options" said Crisil analyst Sudhir Nair, adding, "it has decided to include sulphur in the nutrient basket; this means all sulphur compounds will be reimbursed as per nutrient-based policy"

Talking to reporters, fertiliser secretary JS Sarma further stated that the ministry has set incentive schemes on import savings (in 65:35 ratio) as well.