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INDUSTRY OVERVIEW:

India is an agrarian economy; fertilizer is the main input of any agricultural output. Green revolution in late 70's was orchestrated around the fertilizer. Agricultural output increased exponentially. And after that it stagnated. Agriculture grew at around just 2.5% while the overall economy grew at more than 9%. Latest push from the govt to increase the agriculture output has necessitated the increase in the demand of fertilizer.

Fertilizer industry is govt regulated sector. The profitability of the sector is capped, so we have not seen any fresh investment in the fertilizer sector in past many years. In order to see good growth in agriculture, we need to have fresh investment in the fertilizer.

India needs 27.3 million tons of urea annually, but production has stagnated at 20 million tons in recent years. In order to attract new investment govt has new fertilizer policy.

This needs structural change in the fertilizer policy. So that the fertilizer output increases and fresh investment is done.

RECENT DEVELOPMENT:

GOVT has committed an immediate cash payment of Rs 220 bn for fertilizer producer who have been demanding cash instead of bond. This is over and above Rs 320 bn of cash payment committed in the budget. Total cash payment would stand at Rs 540 bn, out of total estimated fertilizer subsidy of Rs 1150 bn.

CASH PAYMENT NOT BOND :

The acute shortage of domestic supplies of fertilizer has created fury among the farmers in past few months. As farmer is the major vote bank for all the political parties, it became a necessity to dole out cash to fertilizer sector. So that fertilizer sector can produce enough without any constraint on its working capital need.

Now profitability of the fertilizer sector is set to improve, on back complete de-regulation of phosphate segment and part deregulation of urea segment.

Fertilizer Shortage

Farmer fury !

Fertilizer shortage: Farmer Fury!



Waiting for their turn: Farmers queuing up to collect fertilizers from the cooperative godown in Hassan on Wednesday.

HASSAN: The police will issue tokens and used indelible ink to ensure smooth distribution of fertilizers in Hassan district.

Providing details, Superintendent of Police K.V. Sharatchandra said farmers were required make the payment at the cooperative society for two bags of fertilizers and, on receiving payment, they would be issued a bill. With that bill, they had to go to the godown, where tokens would be issued to them. Mr.



Heavy demand: Farmers queuing up in front of a fertilizer dealer's shop in Dharwad on Tuesday.

DHARWAD: With the arrival of monsoon, sowing activities in the district have gained momentum and demand for seeds and fertilizers has gone up.

Farmers, who have ploughed their land for sowing, are lining up in front of fertilizer dealers' shops. But there is acute shortage in the supply of fertilizers.

Fertilizer shortfall in Maharashtra could be as high as 60 per cent. And what fertilizer does arrive becomes the target of profiteering and illegal operations. The runaway price rise adds to this explosive mix. Several regions have seen police lathicharge farmers protesting against the crisis.



Police officers at the Washim station, from where fertilizer is being distributed, try to organise anxious farmers into queues. The angry farmers grudgingly concede the police are doing a good job. (Picture by P. Sainath)

Terrific tension

So why did the fertilizer end up being distributed from the police station? And how do the cops go about it? Inspector Chauchury admits the procedure is not written into the police manual. "Eut it will become our job anyway if there are riots in the marketplace, wont it," he asks. "There was terrific tension in the market. [Some dealers were too scared to open.] There was an imminent threat to law and order. In these troubled situations, where there

Farmers' stir in Karnataka: One killed in police firing

Press Trust of India

Last Updated: June 11, 2008 02:16:02



Bangalore, June 10: One person was killed and four others injured as police fired on farmers protesting against the shortage of fertilisers and seeds in three districts of Karnataka, where the BJP government grappled with its first major challenge since assuming power two weeks ago.

Farmers went on the rampage in Haveri town in North Karnataka when authorities stopped the sale of fertilizers at a godown and put up a 'no stock' board instead.

The agitators resorted to stone-pelting and torched a bus, police said. The police first charged at them with canes and then lobbed teargas shells among them to disperse them. They then opened fire on the farmers, and one Siddalingappa Choori was killed on the spot while four others were injured, three of them critically, police said.

Protests continue

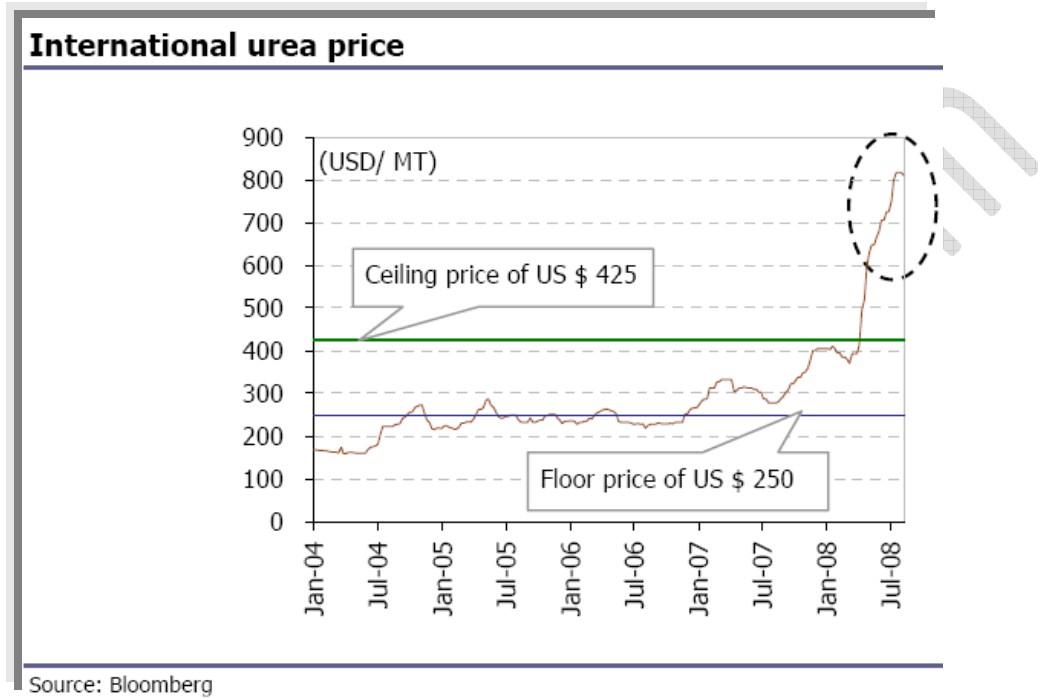
Parts of Davanagere, Haveri and Hubli districts continued to witness protests from the farming community demanding fertilizers and seeds.

Reports said a group farmers resorted to violence in Barkapur, throwing stones and injuring 20 persons, including nine policemen. In Shiggoan, farmers looted a godown with fertilisers, seeds and pesticides valued at Rs.2 lakh.

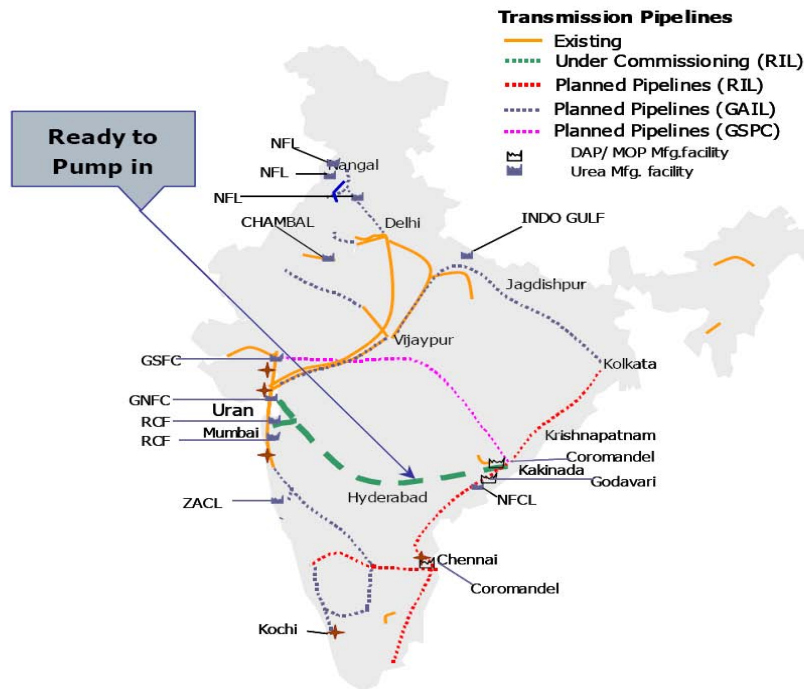
Source: The Hindu, Press Trust of India

NEW FERTILISER POLICY: According to new fertilizer policy, govt will not fix the producer's price for the new units. Each new unit will be free to decide the price at which it wants to sell its product. However, the domestic fertilizer prices for the farmer will continue to be regulated. The international price-parity formula for the domestic urea manufacturer would be adopted.

INTERNATIONAL UREA PRICE:

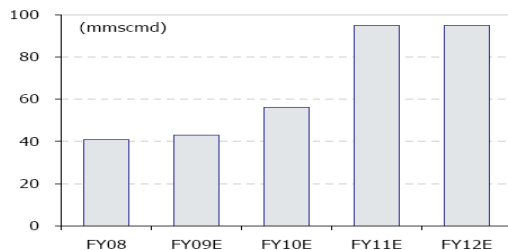


Proposed gas pipeline network

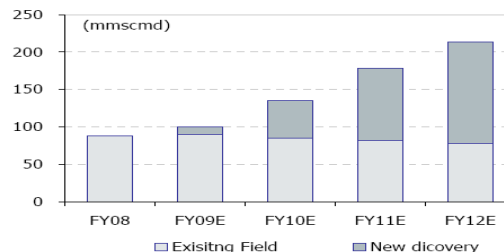


Source: GAIL, ENAM Research

Gas requirement fertilizer



Gas supply to double



Source: Company, ENAM Research

PERFORMANCE OF FERTILIZER COMPANY IN PAST ONE MONTH:

Tata Chemicals 329.90 3.50%
Chambal Fertilizers 73.10 (3.63%)
Deepak Fertilizers 91.55 (11.76%)
National Fertilizers 52.30 (4.82%)
Nagarjuna Fertilizers 38.20 (1.42%)

CONCLUSION: We feel that whole fertilizer will be going for re-rating, as the profitability of the company will increase in coming years. Things won't be that fast but patient investor will reap good profit. As things are now started moving in right direction for fertilizer sectors. Gas supply which is major input of any fertilizer is going to double in the years to come, conducive govt policy and an increased focus on the growth of agricultural sector will see fertilizer companies reaping good profit.

Happy investing.

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