

## STUDY OF CHALLENGES AND GROWTH IN FERTILIZER COMPANIES IN INDIA WITH SPECIAL REFERENCE TO CFCL, KOTA

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### ABSTRACT

*India is a rapid growing country and it has a large part of cultivated land. The farmers are using natural and man-made fertilizers for improving the productivity of their farms. The present fertilizer market of India is of worth INR 4575. It is expected to grow around 13% CAGR by the year 2023. Fertilizers are an essential requirement and it plays a key role in the success of India's agriculture growth. It is an inevitable part of our green revolution. This makes us self-reliance in food-grain production. The overall performance of the company is reflected by its share prices. It has been observed that in last year as the share market did not perform so well but the fertilizer share did very well. The demand in the fertilizer is high and the valuation of the fertilizer share values remain stable and provided a very good support at the present prices. In year 2018 there was a rise of 2% in sales. As we are short in fertilizer supply the fertilizer companies are performing well since from their establishment. In last 5 year the value of the market price of fertilizer share is increased significantly. The share valuation depends mainly on two factors the performance of the company and the valuation of the share. The government policies also highly support the fertilizer industry and they provide special package and subsidies to the fertilizer companies looking at the interest of the farmers.*

**KEYWORDS:** *Fertilizers, CFCL, Book Value, CAGR, Market Valuation, P/B Ratio.*

### Introduction

India is a third largest producer as well consumer of fertilizer in the world. The nutrients required for the farming are nitrogen, phosphate and potash to the soil. This meet the soil productivity requirement the DAP, MOP and complexes fertilizers are used. As the population is growing the need for the higher food grain production is required. This is generating more demand for fertilizers in the country. However, the higher use of the fertilizer results in making an imbalance in the nutrient profile of the soil in most parts of the country. Our nation imports phosphate and potash for the distribution and production of the complex fertilizers. The stock for urea that is natural gas is an important ingredient in the form of liquefied natural gas from Gulf nations.

North and south region of the country are widely consuming fertilizers and as per the new investment policy for urea is continuously likely to increase investments in the urea sector. Moreover, It is expected from the market the accelerate the demand for phosphate and potash fertilizers in the country. "Predictions and opportunities of the Indians in the fertilizers market, 2019" analyzed the potential of the fertilizers market and provided information and statistics on size, shares and trends of the Indian market. The report will provide cutting-edge market intelligence to intended customers and help them to conduct a sound investment assessment. In addition, the report identifies and analyses the trends emerging as well as key drivers and challenges faced by the Indian fertilizer industry. The table below shows the number of key fertilizers produced and imported.

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**Table 1: Production and Import numbers of key fertilizers (LMT)**

	Y-o-Y Change (%)				
	FY16	FY17	FY18	FY17	FY18
Overall Fertilizer Production	412	413	413	0.2%	0.03%
Overall Fertilizer Imports	205	161	171	-21.8%	6.1%
Urea Production	245	242	240	-1.2%	-0.7%
Urea Imports	85	55	50	-35.3%	9.0%

Source: Department of Fertilizers, CMIE, Office of the Economic Adviser (figures do not add up due to different sources)

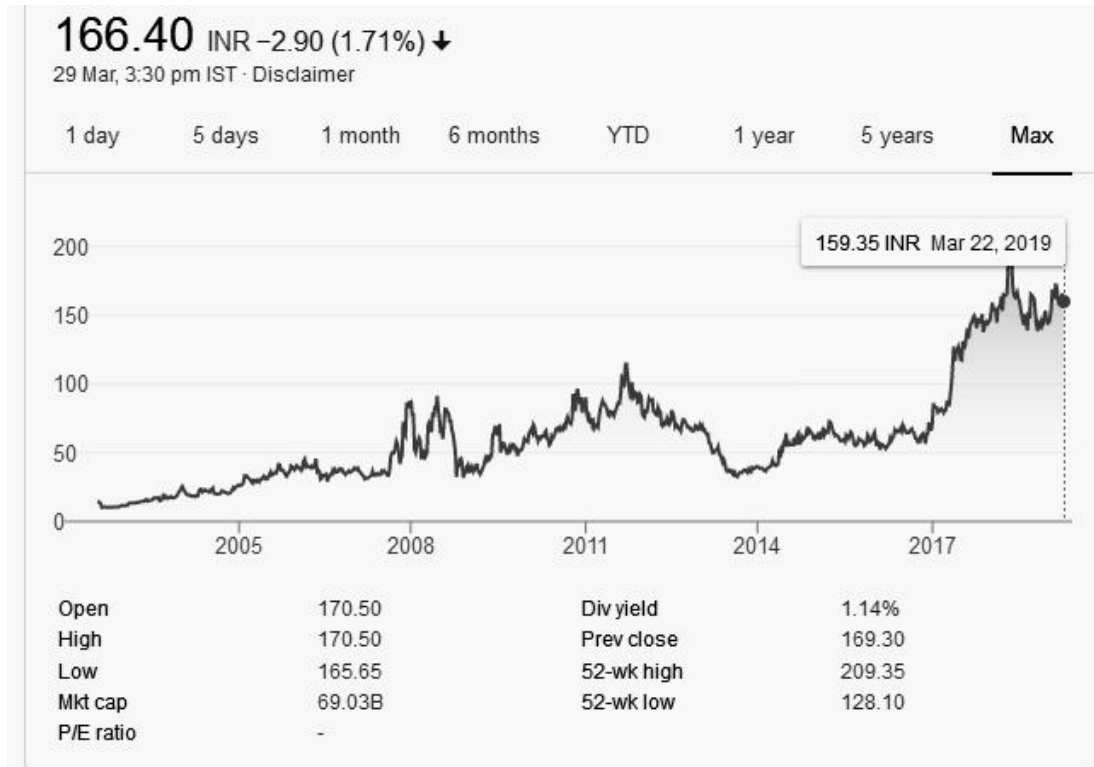
### Indian Fertilizer Market: Drivers

The demand for food is expected to show strong growth as a result of the strong growth in the country's population over the next five years. Conversely, the availability of arable land is expected to decrease due to the increasing level of urbanization. Increasing average crop yields per hectare is a priority that we expect fertilizer. In India, the consumption of fertilizer remains highly skewed, despite strong historic growth. There is still very low fertilizer penetration in some states in India today. That leaves plenty to grow in the future. We expect a number of awareness-raising campaigns by both government and NGO to educate farmers about fertilizer benefits. Fertilizers are expected to be supported through TV, radio and rural custom workshops in the next several years, too. Increasing rural revenues, together with easy access to lending, are likely to have a positive impact on the country's use of fertilizer. The contract farm is also expected to have a positive impact on the use of fertilizers, where technological and training inputs should be supplied to food processing farmers (contractor).

### About CFCL

Chambal Fertilisers and Chemicals Limited is one of India's largest fertilizer manufacturers in the private sector. In 1985 Zuari Industries Limited promoted this project. His two high-tech (urea) nitrogen fertilizer plants are located in Gadepan, Kota Rajasthan district. Both plants produce approximately 2 million tons per year of urea. The first was commissioned in 1993 and the second was commissioned in 1999. These plants use state-of-the-art Danish, Italian, United States and Japanese technology. It is the lead fertilizer provider in the state of Rajasthan and serves the needs of farmers in twelve countries in northern, eastern, central and Western India. It has a wide marketing network with 15 regional agencies, 2,000 distributors and 20,000 outlets at village level. In order to enable the farmer to purchase all of the products from a single source, the company has taken the responsibility of providing all agricultural products through a 'single window.' The dealers of Urea and other agri-inputs such as DAP, MOP (Murate of Potash), SSP (Single Super Phosphate), pesticides and seeds are supplied by the company. Most of them come from well-known suppliers and sold under the umbrella brand 'Uttam.' Head of the pesticide business in Northern India today the Company has been attained. A website called "uttamkrishi.com" provides weather information, appropriate crop techniques and markets in Hindi to encourage new age farmers.

Hello Uttam' has been set up to answer farmers' questions on free telephone help lines. The 'Uttam Krishi Salhakars' is registered for unemployed people from villages. They are educated and provide specialized services to farmers in the latest farming techniques. Two hi-tech urea plants of CFCL, produce approximately 2 million tons of Urea each year. Chambal's efforts to achieve an all round excellence has won some of the most prestigious national and international awards.. Chambal Fertilisers caters to the need of the farmers in eleven states in northern, eastern, central and western regions of India. Chambal has a vast marketing network comprising 15 regional offices, 2,000 dealers and 20,000 village level outlets. Chambal Fertilisers and Chemicals Limited is one of India's largest producers of private fertilizers. Chambal Fertilisers and Chemicals Limited is one of India's largest manufacturers of private fertilisers. In 1985, Zuari Industries Limited promoted this project. The two nitrogen (urea) high-tech plants in Gadepan, Rajasthan district of Kota are located. Both plants produce approximately 2 million MT per year of Urea. In 1993, the first plant was set up, and 1999, the second. These factories use state of the art Danish, Italian, American and Japanese technology. The company set up the third Urea plant in Gadepan at 1,34 million TM per year, completed in January 2019. The annual capacity is 1.34 million TM. Once commissioned, Gadepan will be a unique and only site in the country with single largest production at one place. The following graph shows the growth rate of the CFCL Share valuation since its inception.



Source: <https://www.google.com/search>

The market cap of the company is 69.03 Billion INR. And The Industry P/E is 13.12. Book Value of the company is (Rs) 58.1. Market Value is 159.35 as on dated 22 March '2019 .The Price/ Book Value ratio is 2.87. The higher price to book value shows that the company is having potential to grow in future.

#### **Growth and Challenges Fertilizers Industry**

The main fertilizer sales in FY2018 saw a modest growth of around 2% in terms of the low-systemic inventory of fertilizer companies with regard to Direct Profit Transfer (DPT) implementation across India. The ICRA report published on Thursday shows that total urea sales in FY2018 saw an increase of 2%. Due to healthy sales of DAP, MOP and complexes, non-urea fertiliser sales increased also at a fair rate of 2 percent in FY2018. During the forecast period, the Indian fertilizer market is expected to see strong growth due to steady population growth, which leads to greater food demand, combined mit increasing demand for agricultural products in the country.

In India, the country is one of the leading producers, and is therefore in high demand for fertilizers, of agricultural products like pulses, wheat, rice, groundnut, potatoes or onion. Furthermore, the expansion of the capacity for fertilizer production in India and increasing government efforts to reduce imports of fertilizers are also anticipated to boost Indian growth. Manufacturers are nevertheless bound to face some significant challenges in 2018 that will compel them to revise their strategy.

**Challenge 1:** High imports—India is a large agricultural hub worldwide and most population is dependent on the farm industry to meet its demand.

**Challenge 1:** The fertilizers sector in agriculture is the main end user sector and there is a significant increase in fertilizer demand.

India imports, because of its limited availability in the country, fertilizers such as Potash muriate (MOP) and other specialty fertilizers. Around 2,86 million MOPs were taken in FY2016-17, most of which were imported. Calcium Nitrate (15.5-0-0-18.8), a grade that holds 20% of Indian total market share for water-soluble fertilizers, fulfills 75% of import demand.

The most rapid growth of water-soluble fertilizers in the fertilizer industry is expected. In comparison to domestic production, imports of water solution fertilizers are higher: more than 80% are Potassium nitrate (13-0-45), 95% potassium sulphate (0-0-50) and mono ammonium phosphate (12-61-0). Only 16% of the total request for water-soluble fertilizer is met through domestic manufacture in the country, while most are imported because technological advances in the industry and the high production costs have not been achieved. Various research, however, has collaborated extensively with several fertilizer manufacturers to map the fertilizer industry's flow by analyzing the installed capacity, usage rate, imports, exportations and re-exports that has helped producers to understand the industry's trade flow by providing detailed analysis of insights into increased imports and differences in the domestic production. This is how many manufacturers are able to bridge the demand supply gap.

**Challenge 2: Low Yield Because of NPK's False Uses.** The way government advances agriculture is completely unexpected from natural agriculture. It has become a round of just three NPK chemicals (nitrogen, phosphorus, and potassium). For their development, plants require at least 17 components. For this situation, the government says it is advancing organic farming, appropriations are being given to compound composts, and there are huge inconsistencies in fertilizer uses. The ratio of use of NPK should be 4:2:1. In Punjab, however, this ratio is 61:19:1.

Urea is modest to buy so farmers are increasingly using it to make irregularities that cause the yield to fall. Overall benefits for agriculture should also be investigated throughout the subsidy system. Overuse of fertilizers is the biggest challenge in agriculture. The yield was higher in 1950, with less NPK being used. Currently, less yield is being delivered using more NPK. There is a need to enhance the organic element of the soil through natural farming.

**Challenge 3: Raw Material Availability and Pricing:** The Indian fertilizers industry faces some serious challenges in the form of availability and fluctuating prices of raw materials required to produce fertilizers. The primary cause of fertilizer price fluctuations is related to the supply and demand factors. India is also facing a disability due to the lack of natural resources needed for fertilizer production. There is not enough natural gas in the country in the case of urea.

**Challenge 4: Long-term and Stable Policy Lack of Fertilizer Certification and proper standards** The Government of India continues to ignore the difficulties faced by the fertilizer industry. At present, the import duty on both imported raw materials and finished products is same, whereas raw materials should attract lower custom duty than finished products to encourage the production in India. Also, there is no mandatory certification exists in the market.

**Challenge 5: Distributors and Retailers-Key Influencers in Specialty Fertilizers Industry:** The demand for specialty fertilizers is growing at a very fast rate. Distributors play a crucial role in the sales of water soluble fertilizers. The overall sales for various grades of water soluble fertilizers is growing at a significant pace, yet some companies in the Indian market are facing major challenges due to the decline sales in the respective grade.

## Conclusion

Besides several challenges the Indian Fertilizer Industry is doing and reported growth of 2% in sales in year 2018. The fertilizer companies having higher P/B value as seen in the case of CFCL that shows the companies have a potential to grow and the investors rely on the fertilizer industry. The government support and subsidy on the fertilizers is another big factor which is very positive for the Industry. In table 1 it is shown that India imports the fertilizers to meet its demand. Therefore looking at the growing demand of fertilizers and to make the nation self sufficient to cater the demand, the CFCL has commissioned a new production unit in January 2019. The rise in production capacity of CFCL has appreciated its share value in the market.

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