Urea off-take hits new low

BR RESEARCH (November 28, 2012) : The Rabi season did not start on a great note in terms of fertiliser application to the soil as the farmers continue to give their lukewarm response to fertiliser buying. Most worrisome is the slowdown in urea off-take which has piled on huge inventories. Urea off-take for October 2012 clocked in at 234 thousand tons - the lowest October level in five years. The extent of the drop in urea application can be gauged from the fact that in October last year; urea off-take was a healthy 518 thousand tons, more than double the level recorded this year. Urea prices in the local market had previously been the chief reason for low urea demand, but this has not been the case this time around, as urea prices at Rs.1,687 per 50kg bag are 10 percent lower than the corresponding period of last year. It was heavy import of urea by the government that resulted in a near halt in urea sales of the local manufacturers, as the government continued to heavily subsidise the imported urea and sold it at the prices lower than those of local manufacturers. The situation proved to be a double whammy for local players, who faced the heat of being at the receiving end of extended gas curtailment. Worse still, there was not enough room for the local players to increase the product price as they had to compete with the cheap imported urea, hurting the margins across the industry. Currently, the country is sitting on a huge inventory pile of urea, which is around 0.9 million tons. Should more imports arrive, the inventory could reach the highest ever level crossing the million tons mark. With winters approaching fast, there is all likelihood that fertiliser industry would again face the axe in terms of gas supply, paving way for more urea imports. On a brighter note, a lot of slowdown in urea demand was due to the anticipation in increase in wheat support price, which kept the farmers on hold. Now that wheat support price has been increased by a considerable margin, the wheat sowing season, which takes full swing in November and December, might result in increased urea demand. That said, the local industry may continue to face problems as the efforts of dedicating a gas field to fertiliser industry have taken a back seat. With the elections just round the corner, it is less likely that the government would take the wrath of textile sector and domestic consumers in the winters. So, urea off-take may well revive, the local industry in all likelihood, faces another tough winter.