Chemicals

Sector Update

August 27, 2026

Fertilizer industry awaiting mid-season NBS subsidy hike

Quick Pointers

- Subsidy support improves but remains insufficient to offset the sharp rise in key raw material costs
- Higher RM costs are likely to squeeze fertilizer margins in Q2FY27

Coverage Universe

Name of the Company	Rating	CMP (INR)	TP (INR)
Aarti Industries	Accumulate	539	526
Acutaas Chemicals	BUY	3,313	3,790
Clean Science and Technology	HOLD	822	745
Deepak Nitrite	Reduce	1,751	1,586
Fine Organic Industries	BUY	5,184	6,357
Gujarat Fluorochemicals	HOLD	4,606	4,498
Jubilant Ingrevia	Hold	707	711
Laxmi Organic Industries	Reduce	170	169
Navin Fluorine International	Accumulate	8,210	8,812
NOCIL	HOLD	164	179
P.I. Industries	HOLD	2,508	2,569
Paradeep Phosphates	Accumulate	160	158
PCBL Chemical	Accumulate	321	388
SRF	Reduce	2,575	2,482
Sudeep Pharma	SELL	1,113	855
Vinati Organics	Accumulate	1,336	1,443

The West Asia crisis has led to a sharp increase in fertilizer raw-material costs, with sulfur, ammonia, rock phosphate and phosphoric acid prices rising significantly compared to last year. Given India's high import dependence on these inputs, the sharp increase in costs is putting pressure on DAP/NPK manufacturers' margins. While the government has increased NBS support for kharif'26 by ~10%, the higher subsidy is not sufficient to fully offset the rise in raw-material costs, creating a viability gap.

Companies like Paradeep Phosphates (PPL) benefited in Q1FY27 from lower-cost inventory and price hikes, which supported higher EBITDA/t. However, margins could come under pressure in Q2FY27 as higher raw material costs flow through. The key near-term trigger for the sector is a possible mid-season NBS hike. A higher subsidy would support DAP/NPK economics and ease margin pressure, while no revision could force companies to absorb higher costs or reduce production of unviable grades.

Fertilizer RM costs surge amid West Asia crisis: Sulfur has seen the steepest price surge, jumping from ~US$260/t in Q2FY26 to >US$1,000/t currently. Ammonia, rock phosphate and phosphoric acid prices have also moved significantly higher. The result is a cascading impact across the DAP and NPK value chain, squeezing manufacturer margins. India's structural import dependence for fertilizer RM leaves domestic fertilizer producers highly exposed to international price swings and geopolitical shocks.

Subsidy increase unlikely to fully compensate for RM inflation: Subsidy support has improved but remains insufficient to fully offset the cost shock. The government increased the kharif'26 NBS allocation to INR415.3bn from INR372.2bn in kharif'25 and raised per-kg nutrient subsidies for H1FY27 by ~12% for N, 21% for K and 19% for S, with potash (K) unchanged. Additional INR3,500/t support for DAP has been provided while keeping DAP MRP capped at INR1,350 per 50kg bag. Even so, these subsidies lag the surge in key RM prices, leaving a viability gap.

Q2FY27 looks challenging for fertilizer companies: Manufacturers such as PPL reported strong results in Q1FY27, aided by low-cost RM and finished-goods inventory carried over from before the price spike, alongside ~25% price increases across their NPK portfolios. This created a temporary mismatch where selling prices exceeded cost of goods sold, boosting EBITDA/t. However, as the low-cost inventory has been consumed, Q2FY27 costs will increasingly reflect higher replacement prices, raising the risk of sequential margin compression even if selling prices are maintained.

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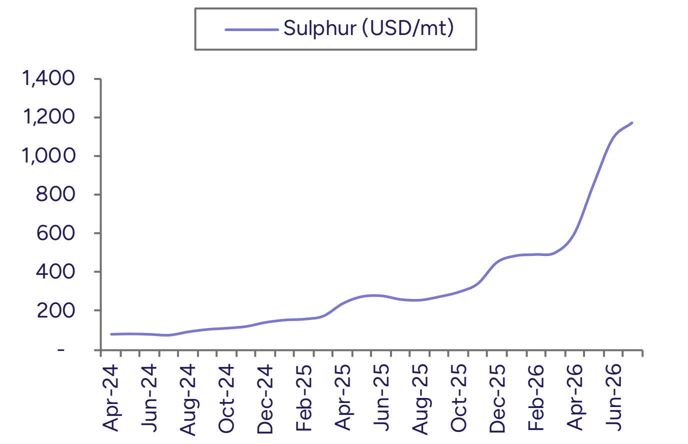
Fertilizer industry seeks mid-season NBS subsidy hike; any announcement would be positive: The key near-term catalyst for the industry is a potential mid-season upward revision in NBS subsidy rates for the ongoing kharif season. Fertilizer companies are in active discussions with the government seeking higher subsidy rates to bridge the viability gap created by soaring input costs. Any increase in NBS would directly improve the economics of NPK and DAP fertilizers and reduce the portion of RM inflation that manufacturers must absorb. If subsidies are not revised and input prices remain elevated, the industry could face continued margin pressure and potentially scale back production of economically unviable grades.

Fertilizer RM costs surge amid West Asia crisis

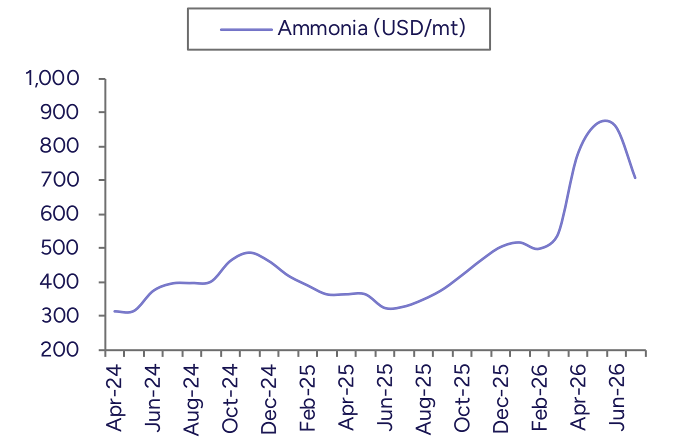
The fertilizer industry has entered a period of elevated RM costs following the escalation of the West Asia conflict, which has disrupted shipping routes, increased freight and insurance costs, and tightened the availability of key inputs, particularly sulfur and ammonia. The disruption has translated into a sharp increase in landed input costs for Indian manufacturers. The impact is particularly significant for phosphatic fertilizers, where sulfur, phosphoric acid, ammonia and rock phosphate constitute a substantial portion of the cost structure.

Exhibit 1: Sulphur prices surge 3.6x YoY



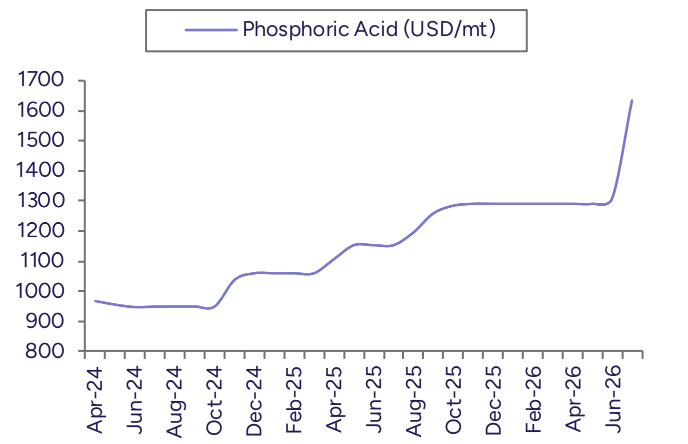
Source: PL, industry

Exhibit 2: Ammonia prices more than double YoY



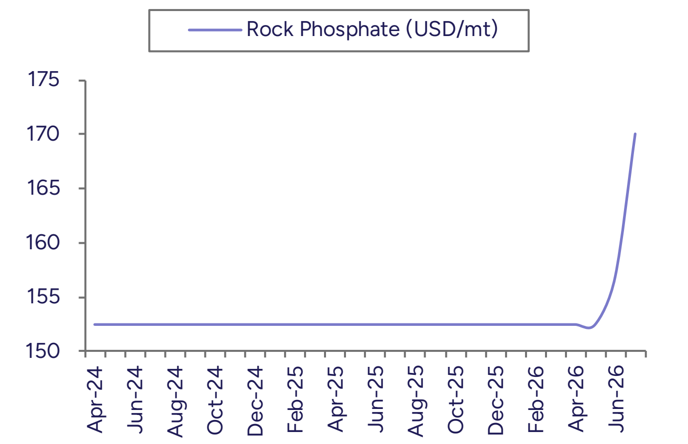
Source: PL, industry

Exhibit 3: Phosphoric acid prices increase by 25% in July



Source: PL, industry

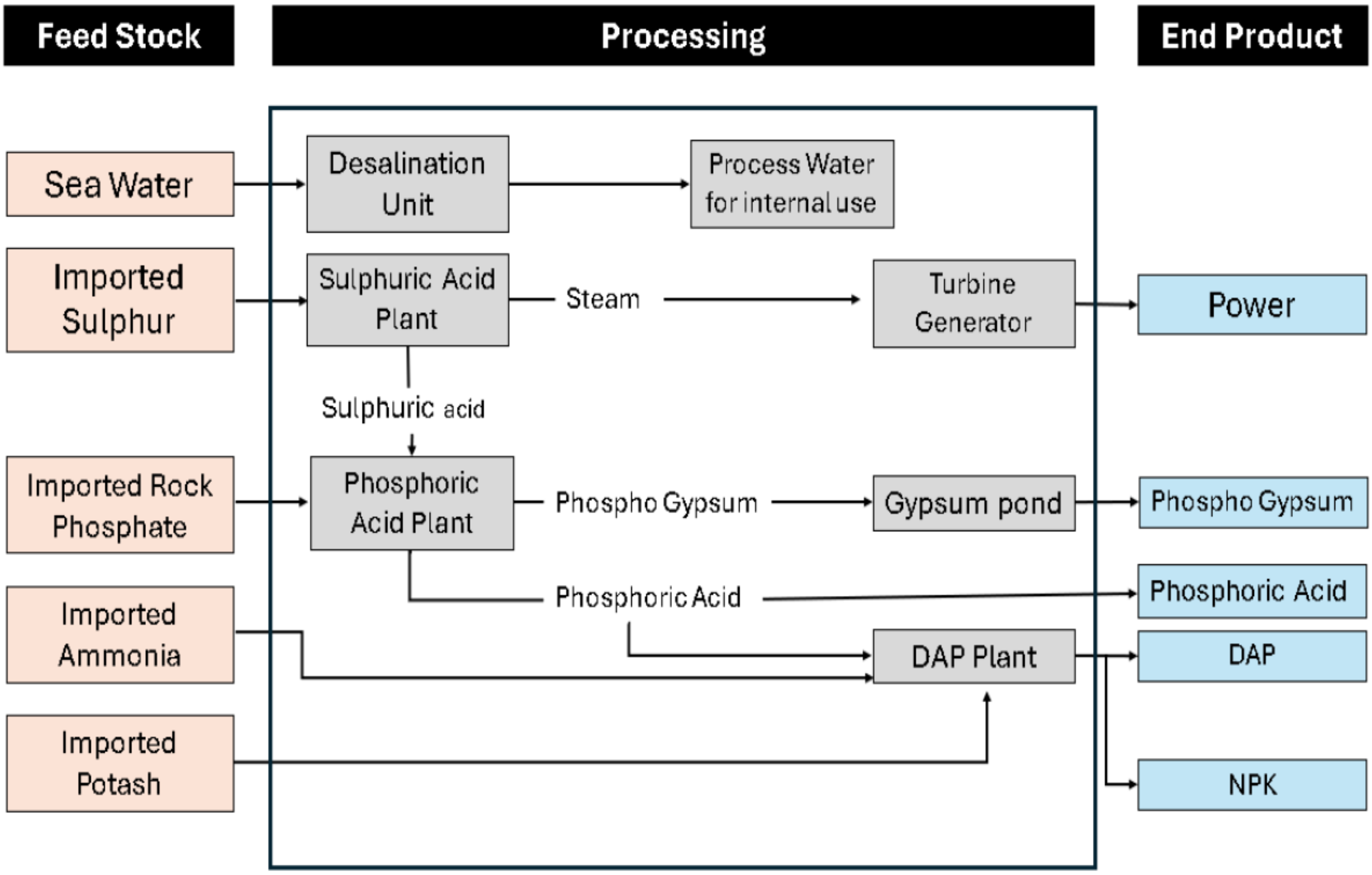
Exhibit 4: Rock Phosphate hovering at $160–170/t



Source: PL, industry

Sulfur witnessed the steepest rise from ~US$260/t in Q2FY26 to >US$1,000/t currently, nearly a 3.6x increase. Ammonia, rock phosphate and phosphoric acid prices have also moved higher. The sharp increase in sulfur is particularly concerning as it raises the cost of sulfuric acid and, consequently, phosphoric acid, creating a cascading impact across the DAP and NPK value chain, as shown below.

Exhibit 5: Sulfur is the starting material for most fertilizers



Source: PL, industry

India remains structurally dependent on imports for several of these RMs, making domestic fertilizer manufacturers vulnerable to international price movements and geopolitical disruptions. The current situation therefore highlights the inherent volatility in the phosphatic fertilizer value chain and the difficulty in immediately passing entire sharp increase in input costs to farmers.

Subsidy increase unlikely to fully compensate for RM inflation

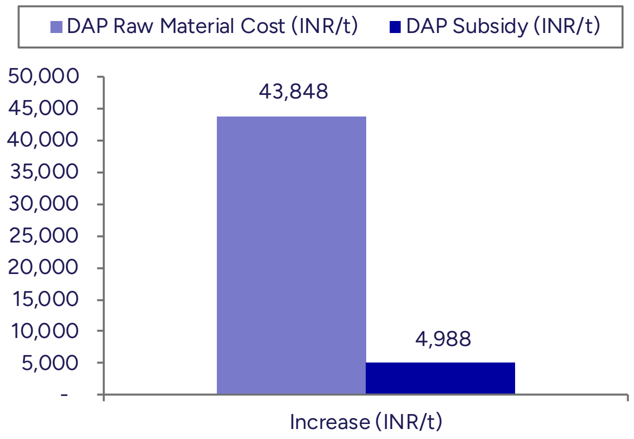
The increase in RM prices has been significantly sharper than the increase in subsidies. The government has increased the kharif'26 NBS allocation to INR415.3bn from INR372.2bn in kharif'25. The government has also provided additional INR3,500/t support for DAP while maintaining DAP MRP at INR1,350 per 50kg bag. NBS subsidy rates for H1FY27 increased by ~12% for N, 21% for P and 19% for S, while K subsidy remained unchanged. The increase in subsidy, particularly for P and S, provides some cushion against higher RM costs, but remains insufficient to fully offset the sharp rise in sulfur and ammonia prices.

Exhibit 6: Nutrient subsidy rates raised for Kharif'26

Nutrient-wise subsidy (INR/kg)	Kharif'25	Kharif'26	*% change*
N	43.0	47.3	*10%*
P	43.6	52.8	*21%*
K	2.4	2.4	*0%*
S	2.6	3.1	*19%*

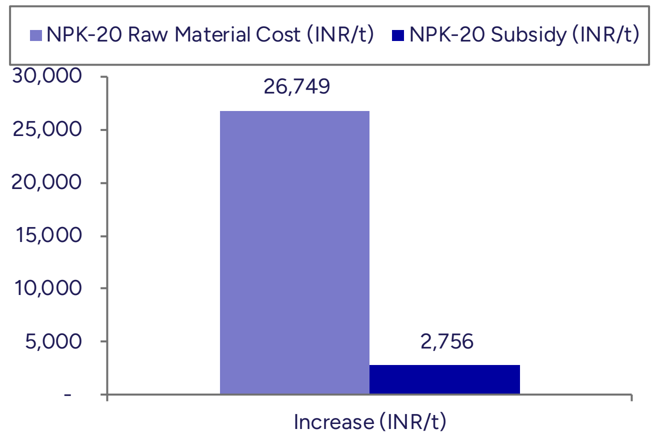
Source: PL, Industry

Exhibit 7: YoY increase in RM cost vs. subsidy for DAP (INR/t)



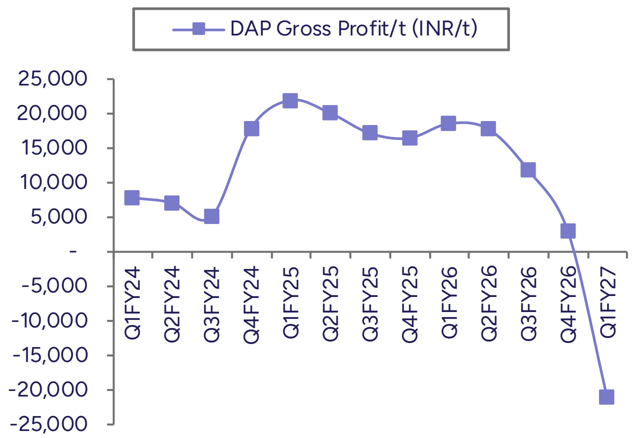
Source: PL, Industry

Exhibit 8: YoY increase in RM cost vs. subsidy for NPK-20 (INR/t)



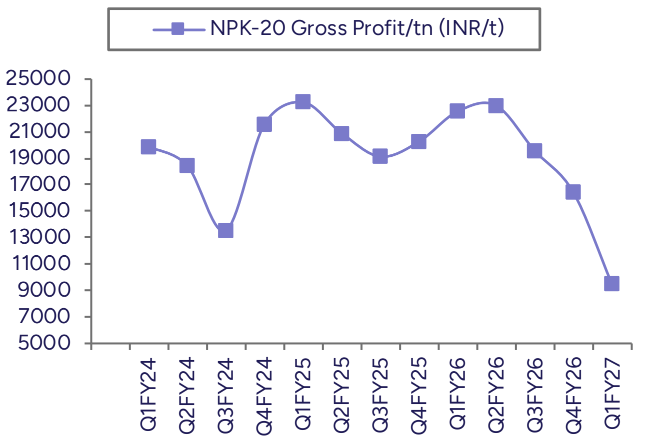
Source: PL, Industry

Exhibit 9: DAP gross profit/t turns negative



Source: Industry, PL

Exhibit 10: NPK-20 gross profit/t declined 42% QoQ



Source: Industry, PL

Q2FY27 looks challenging for fertilizer companies

PPL delivered strong Q1FY27 performance as the company entered the quarter with a meaningful amount of lower cost RM and finished-goods inventory, which allowed it to manufacture and sell fertilizers at a cost materially below the prevailing replacement cost. At the same time, PPL had undertaken price increases across its NPK portfolio by ~25%, resulting in higher realizations without the full increase in RM costs flowing through during Q1FY27.

This created a favourable temporary mismatch between selling prices and cost of goods sold. As a result, PPL reported strong Q1FY27 performance, with EBITDA/t of INR7,311.

However, the same economics are unlikely to be repeated in Q2FY27. As the lower cost inventory gets consumed, the company's cost of goods sold will increasingly reflect the higher replacement cost of RMs purchased after the West Asia crisis-driven price increase.

This creates a significant risk to sequential EBITDA/t. Even if fertilizer companies maintain the price increases undertaken in Q1FY27, higher realizations could be insufficient to compensate for the sharp increase in RM costs.

Fertilizer industry seeks mid-season NBS Subsidy hike; any announcement would be positive

Our interaction with the managements of several fertilizer companies revealed that they are in active discussions with the government for an upward revision in NBS rates for the ongoing kharif season to bridge the viability gap created by the increase in input costs.

Thus, mid-season NBS revision will be the key near-term catalyst for the sector. Any increase in subsidy would directly improve the economics of NPK/DAP fertilizers and reduce the amount of RM inflation that manufacturers need to absorb through margins. However, if the government does not revise subsidy rates and RM prices remain elevated, manufacturers could face continued margin pressure and potentially lower production of economically unviable grades.

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (INR)	Share Price (INR)
1	Aarti Industries	Accumulate	526	489
2	Acutaas Chemicals	BUY	3790	3260
3	Bharat Petroleum Corporation	HOLD	305	310
4	Bharti Airtel	BUY	2275	1978
5	Clean Science and Technology	HOLD	745	734
6	Deepak Nitrite	Reduce	1586	1750
7	Fine Organic Industries	BUY	6357	5028
8	GAIL (India)	BUY	206	181
9	Gujarat Energy	HOLD	275	274
10	Gujarat Fluorochemicals	HOLD	4498	4566
11	Gujarat State Petronet	Hold	242	236
12	Hindustan Petroleum Corporation	Reduce	350	385
13	Indian Oil Corporation	Accumulate	147	140
14	Indraprastha Gas	BUY	178	152
15	Jubilant Ingrevia	Hold	711	745
16	Laxmi Organic Industries	Reduce	169	182
17	Mahanagar Gas	Accumulate	1254	1121
18	Mangalore Refinery & Petrochemicals	HOLD	150	157
19	Navin Fluorine International	Accumulate	8812	8256
20	NOCIL	HOLD	179	171
21	Oil & Natural Gas Corporation	Accumulate	273	240
22	Oil India	Accumulate	551	453
23	P.I. Industries	HOLD	2569	2483
24	Paradeep Phosphates	Accumulate	158	147
25	PCBL Chemical	Accumulate	388	366
26	Petronet LNG	Accumulate	297	279
27	Reliance Industries	BUY	1675	1327
28	SRF	Reduce	2482	2632
29	Sudeep Pharma	SELL	855	1100
30	Vinati Organics	Accumulate	1443	1296

PL's Recommendation Nomenclature (Absolute Performance)

BUY	:	> 15%
Accumulate	:	5% to 15%
Hold	:	+5% to -5%
Reduce	:	-5% to -15%
Sell	:	< -15%
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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