



Are PotashCorp's Fortunes Turning Around?

Description

“Something will surely happen on this.”

Those words, spoken by Manish Gupta of India's largest fertilizer company, Indian Farmers Fertiliser Cooperative (IFFCO) at the recently held BMO Capital Markets Farm to Market conference could dictate the future of our very own fertilizer companies, including **PotashCorp** (TSX: POT)(NYSE: POT), **Mosaic** ([NYSE: MOS](#)), and **Agrium** (TSX: AGU)(NYSE: AGU).

Gupta was referring to India's lopsided fertilizer subsidies program that hugely favors home-grown urea nutrient over potash and phosphate – a practice that has dealt a major blow to demand, and hence imports of the two nutrients from the nation in recent years. India currently imports 100% of its potash and nearly 90% of its phosphate requirements, with PotashCorp, Mosaic, and Agrium among its key suppliers.

But with a new, and expectedly stable, government coming to power in India, things could soon turn for the better for these fertilizer companies.

Why is India such a big deal?

PotashCorp may have frequently expressed concern over India's imbalanced nutrients application in recent years, but it's only now that the nation's leading fertilizer producer, IFFCO has openly recognized the imbalance as a critical issue that calls for prompt action. To give you a better picture of where India stands, take a look at the following graph from Agrium's latest investor presentation that compares corn (a key crop) yields with the level of nutrients application across major geographic regions.

Source: Agrium. Data supplied by: USDA, IFA, Agrium
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As shown above, balanced use of nutrients is a major driver of crop yields. India certainly needs to get its act together, and cannot afford to put crop yields at stake with its burgeoning population and growing demand for food. The good news is that the country's new leader, Narendra Modi, already appears to have a game plan ready to transform the nation's agriculture sector. As an example, at a

recent election rally, Modi promised to fix minimum support prices of key crops to maximize farmers' profitability if he came to power. Initiatives along those lines could go a long way in boosting farm income, and hence demand for fertilizers.

So what can you expect now?

It remains to be seen whether the Indian government will taper its total fertilizer subsidies or simply reallocate them to strike a better balance between nutrients. While reallocation will perhaps work best for potash and phosphate nutrients, reduction of total subsidies should hit urea the most, thus making it relatively less affordable to farmers than it currently is.

Demand for potash and phosphate should improve either way, providing respite to PotashCorp, Mosaic, and Agrium. Small wonder, then, that all three companies are pinning hopes on India and tracking every development in the nation closely.

Which company will benefit most?

If PotashCorp is "looking for a change in direction coming out of the Indian government", Mosaic believes that the Indian market will determine the direction of demand and prices of the two nutrients during the latter half of the year. Both companies get a major chunk of their revenue from the two nutrients and count India among their key markets. For perspective, India contributed nearly 16% to Mosaic's total sales in 2011. The number slipped to below 5% by 2013, thanks to dwindling fertilizer demand from the nation.

Of the three companies, Agrium has the smallest exposure to fertilizers, and hence India since it derives nearly three-quarters of its revenue from seeds and crop protection products. Nevertheless, the company [relies heavily on](#) its high-margin fertilizer business for profits. So India's growth story is as relevant to Agrium as to its peers.

It's time to go bullish

The worst could already be over for fertilizer companies, and their investors. Potash prices are consolidating after having [found a bottom](#) following China's recent contracts, and global phosphate prices have recovered substantially so far this year after hitting a multi-year low in 2013.

While that takes care of the pricing side of the equation, improved demand from India should help boost sales volumes, giving a much needed breather to PotashCorp and its peers. Keep an eye on India as it embarks on a new journey and turns the fortunes of these fertilizer companies around.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MOS (The Mosaic Company)

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