

F. No. 15011/3/2024-P&K (E-35999)

Government of India
Ministry of Chemicals & Fertilizers
Department of Fertilizers

Shastri Bhawan, New Delhi-110001

Dated, the 20 June, 2024

To,

1. CMD/MD of all P&K Companies.
2. DG, FAI.

Subject: Cost data format for the New Reasonability guidelines dated 18.01.2024-reg.

Sir/Madam,

I am directed to refer to the subject cited above and to state that a Committee comprising of Department of Fertilizers ,FAI and P&K industry had been constituted to recommend an updated format for the cost data along-with cost auditor report format with reference to the Reasonability Guidelines dated 18.01.2024. The Committee after deliberations recommended updated format for cost data along with cost auditor report format.

2. The updated formats are enclosed herewith for information and further necessary action .The P&K companies under NBS Scheme must ensure that the information in the said cost data formats is submitted timely wrt Reasonability Guidelines dated 18.01.2024.

3. This issues with the approval of the Competent Authority.

Yours faithfully



Encl.: As above

(Anurag Rohatgi)

Director

Tel: 011 - 2338 7612

1. Appointment of Cost Auditor:

A) All the companies, the accounts of which are subject to Cost Audit under the provision of the Companies Act, 2013:

Cost Auditor appointed as per the provisions of the Companies Act, 2013 (as amended from time to time) shall conduct **Special Cost Audit** under Nutrient Based Subsidy (NBS) Scheme.

B) Companies / Cooperatives other than specify in A) above:

Companies / Cooperatives shall appoint the Cost Auditor as per the provisions given in the Companies Act, 2013. (Appointment of Auditor as per the provisions given in the Companies Act, 2013 under NBS scheme shall be voluntary for the FY 2023-24).

2. Authorized signatory of the Cost data:

Cost data duly signed & stamped by Director Finance/CFO of the company.

3. List of documents to be submitted to the Department of Fertilizers in the online Module:

- i. Cost Auditor's Report
- ii. Audited Cost data
- iii. Audited Financial Statements
- iv. Copy of Board Resolution for approval of the Audited Cost data

4. Requirement of Segment reporting in Audited Annual Accounts:

Companies shall report the P&K fertilizers under NBS scheme as a **separate segment** in Audited Annual Accounts. However, the 3 categories of Integrated Manufacturers, Manufacturers and Importers shall be considered as three separate categories/ segments.

5. Promotional Expenses/Discount:

Promotional expenses / discount incurred in any manner would not be allowed in any head of cost data submitted by the company.

6. Deviation from the prescribed Cost Data Format:

- i. Every Company/ Cooperatives shall submit the Cost data in prescribed Cost Data format only. However, if Company/ Cooperatives/ Auditor want to disclose some additional information, the same can be included in the Cost data format as **additional disclosure**.
- ii. If any Company/ Cooperatives deviate from the prescribed Cost Data format, the same shall be considered as non-submission of Cost data.

7. Default by the Cost Auditor:

If any default is made by Cost Auditor, the cost auditor of the Company/ Cooperatives who is in default shall be punishable as per applicable laws.

8. Submission of previous year data (i.e. FY 2022-23):

The guidelines are effective from 01.04.2023. Hence, it is voluntary for the companies to submit the cost data for FY 2022-23 in the prescribed format which is effective from 01.04.2023 onwards.

9. **Clarification on Integrated Manufacturer:**

- i. The companies which have/ develop capacities in India covering the entire value chain from raw material stage i.e. Rock Phosphate & Ammonia to Finished Fertilizers i.e. DAP/ NPK in India, and
- ii. The companies which utilize 100% of their plant capacities; and
- iii. The companies which set up new production facilities (**i.e. set up & starts commercial production**) for chemical fertilizers, alternate innovative fertilizers (DAP/NPKs, Bio-Fertilizer, Organic Fertilizers, PDM, Urea SSP and SSP etc.) with capacity of at least 5 LMT after 01.04.2023 (**once**); or
Invest to increase the existing production capacity by at least 20% or at least 5 LMT, whichever is higher, after 01.04.2023 (**once**).

10. **Net dealer margin:**

Deduction of dealer's margin shall be allowed to the extent of 2% of MRP for DAP & MOP and 4% of MRP for all other grades of fertilizers under NBS Scheme. (For eg. If MRP of NPKs is Rs.20,000/- per MT, then net dealer margin would be Rs.800/- per MT.)

11. **Compendium of applicable guidelines/ policies:**

A link will be provided on the website of the D/o Fertilizers where all the applicable Guidelines/ policies will be available at one place.

12. **Non-Cost items:**

Any expenditure incurred by the company/ cooperative in respect of products covered under NBS Scheme may be included in cost data. (Eg. like Forward Cover Expenses, Exchange Variation, Demurrage Expenses etc).

13. **Clarification on Net Interest and Financing charges:**

Net Interest & Financing charges means actual interest & financing charges on working capital *minus* interest income shown in P&L account.

14. **Clarification:**

If any company/ cooperative want any clarifications on Guidelines/ proforma issued by D/o Fertilizers (DoF), they may approach to DoF. DoF shall provide clarification on the same within 45 days of receipt of particular application.

15. **Clarification on submission of Imported Goods (Raw material / finished fertilizers) details (Bill of entry, Invoice, Bill of Lading etc) in IFMS within 7 days from generation of Bill of entry**

Submission of the desired details in IFMS within the prescribed timeline shall be voluntary for the FY 2023-24.

16. **PROFORMA applicable for different categories:-**

| S. No. | Segment/category | Proforma |
|--------|--------------------------|----------|
| 1. | Importers | A1 to A7 |
| 2. | Manufacturers | B1 to B7 |
| 3. | Integrated Manufacturers | C1 to C7 |

F.No.23011/9/2023-P&K
Government of India
Ministry of Chemicals and Fertilizers
Department of Fertilizers

205-D, Shastri Bhawan
Dated 18th January, 2024

OFFICE MEMORANDUM

Subject: Guidelines for evaluation of reasonableness of Maximum Retail Prices (MRPs) of Phosphatic and Potassic (P&K) fertilizers under the Nutrient Based Subsidy (NBS) Policy-Regarding.

In exercise of powers conferred by section 3 of the Essential Commodity Act, 1955, under Fertilizer (Control) Order, 1985 section 25(1) restriction on sale and use of fertilizers as per terms and conditions which are laid down as per govt. policies are prescribed. Accordingly, the govt. has implemented the Nutrient Based Subsidy (NBS) Policy w.e.f. 01.04.2010.

2. The undersigned is directed to refer to the various OMs/Orders on the above subject issued by this Department from time to time and directed to issue the detailed guidelines for evaluation of reasonableness of MRP's of Phosphatic and Potassic (P&K) fertilizers under the Nutrient Based Subsidy (NBS) Policy.
3. The salient features/provisions of the guidelines are as below: -
 - i. These guidelines will be effective from 01.04.2023 onwards.
 - ii. GST will be excluded from evaluation of reasonableness of MRPs.
 - iii. Differential Profit percentage will be allowed for P&K Fertilizer Companies based on the category to which they belong i.e. 8% for Importers, 10% for Manufacturers and 12% for Integrated Manufacturers. **(detailed formula of calculation along with details of categorization are at Annexure-A)**
 - iv. The basis of evaluation of reasonableness of MRPs will be the Total Cost of Sales i.e. is the Cost of Production/Import (except profit on self- manufactured intermediates for manufacturing finished fertilizers), Administrative Overheads, Selling and Distribution Overheads (except promotional expenses), Net Interest and Financing charges.
 - v. The Total Cost of Sales will not include the following: (a) any interest beyond the net interest and financing charges (ie. Net Interest and Financing Charges = Actual interest expenses -Interest Income shown in P&L a/c), (b) GST/IGST paid on inputs/imports of fertilizers which are eligible for input tax credit.



- vi. Deduction of discount or promotional expenditure except the prescribed Dealer's margin will not be permitted.
- vii. Deduction for Dealer's margin will be allowed to the extent of 2% of MRP for DAP & MOP and 4% of MRP for all other grades of fertilizers under NBS (TSP, MAP, SSP, NPKs & PDM).
- viii. Reasonability will be evaluated for all fertilizer grades for which subsidy is received by P&K fertilizer companies under NBS scheme on segment basis. (i.e. for all the P&K grades taken together for which subsidy has been realized under NBS scheme by the company) However, the 3 categories of Integrated manufacturer, Manufacturer and Importers will be considered as three separate categories/ segments (i.e. for ex. all imported finished products would come under Importers category).
- ix. Companies will report P&K fertilizers under NBS as a separate Segment in their Audited Annual Accounts. However, the 3 categories of Integrated Manufacturer, Manufacturer and Importers will be considered as three separate categories/ segments.
- x. Companies will self-assess unreasonable profit earned by them based on Cost Auditor's Report along-with audited cost data approved by the Board of Directors (BoD) and refund unreasonable profit to DoF upto 10th October for the previous financial year (Self-assessment based on the Cost auditor's report) (i.e. for FY 2023-24 upto 10th October, 2024). In case, companies do not refund unreasonable profit earned above the prescribed limit within prescribed time limit, then an interest @ 12% per annum on pro-rata basis would be charged on the refund amount from the next day of end of financial year (i.e. in case of FY 2023-24, the interest would be charged from 1st April, 2024).
- xi. The Cost Auditor's Report along-with audited cost data approved by the BoD will be submitted in the online module upto 10th October for the previous financial year (i.e. for FY 2023-24 upto 10th October, 2024).
- xii. All companies/cooperatives (except SSP & PDM units which are very small units) under NBS will set-up an Audit Committee (composition as prescribed in Companies Act, 2013) to review the Cost Auditor's Report along-with audited cost data on reasonableness of MRPs before placing it before the BoD for their approvals.
- xiii. In case of non-submission of Cost Auditor's Report along-with audited cost data approved by BoD by the companies upto 10th October for the previous financial year, further subsidy payment of the company will be stopped till the time the company furnishes the requisite cost data to the DoF and a penalty @ Rs. 1000 per day would be charged from next day of time limit specified for submission of cost data (i.e. for FY 2023-24 penalty would be charged from 11th October, 2024 onwards).

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xiv. Examination of the reasonability of MRPs as submitted by the P&K Fertilizer Companies shall be completed timely by DoF/ FICC by 28th February for each completed previous financial year (i.e. for FY 2023-24 by 28th February, 2025).

xv. DoF will place a report on unreasonable profit earned by the companies and recovered by the Department before the IMC.

xvi. **Reporting mechanism by the Companies**

In view of Government vision of transparency and good governance, cost auditor will report following in its report: -

a. The updated cost data format will be used for online submission of data (DoF will issue updated cost data format along with auditor report format).

b. Compliance by the Company with all the policy parameters issued by DoF in relation to NBS scheme from time to time.

c. Company has not used any other subsidized fertilizers in production of P&K fertilizers under NBS scheme.

d. Company has not earned any profit on self- manufactured intermediaries for manufacturing finished fertilizers.

e. Subsidy claims submitted by company to the DoF are in line with NBS policy/Notification issued from time to time by DoF.

f. Production/Import of P&K fertilizers figures submitted in IFMS and Cost sheet are same. If any difference is there, then reason for the same alongwith justification has to be given.

g. Company has submitted Imported Goods (Raw Material/Finished Fertilizers) details (Bill of Entry, Invoice, Bill of Lading etc.) in IFMS within 7 days from generation of Bill of Entry.

h. Confirmation that the data submitted by the company in IFMS is correct.

i. Any expansion/ Setup of new plant of Fertilizers (DAP/NPKs, SSP, PDM, Bio Fertilizers, Organic Fertilizers etc.)

j. Capacity utilization of plants in India.

k. Total raw material/intermediates viz. rock phosphates, Phosphoric acid, Ammonia, Natural Gas, Urea, Potash etc. consumed during the year in domestic production of fertilizers under NBS.

l. Any other information that company/auditor may like to disclose.

xvii. If the scrutiny of reasonableness of MRPs by DoF does not match with self-assessment, the company will be provided an opportunity to represent/furnish

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inputs prior to adjustments from the subsidy payments. In such cases, DoF /FICC will issue notice to represent/furnish comments within 14 days. FICC (P&K Cost Analysis Cell) will be asked to examine the comments received from the company within next 15 days and thereafter final decision will be taken by DoF within 7 days of receipt of FICC's (P&K Cost Analysis Cell) response. If company does not reply within 14 days, it will be presumed that company has nothing to represent and accordingly, the amount over and above the reasonable profit will be recovered with Interest @ 12 % p.a. on pro-rata basis from next day of end of financial year under examination. (i.e. in case of FY 2023-24, the interest would be charged from 1st April,2024)

- xviii. The unreasonable amount of profit i.e. profit over and above reasonable profit not refunded by the companies based on self-assessment or based on the examination of DoF, would be adjusted from subsequent subsidy payments along with interest, if any.
- xix. In case of any dispute related to implementation of guidelines, the litigation shall be decided by Courts having jurisdiction in New Delhi.
4. This issue with the approval of the competent authority.

(Nirmla Devi Goel)

Under Secretary to the Govt. of India

Tele 011-23386151

To

P&K Cost Cell, FICC

Copy to DG-FAI, New Delhi for conveying to all the P&K Companies under NBS scheme.

Enclosure to Draft Guidelines dated 18.01.2024

| Particulars | Category/Segment | | |
|--|--|--|--|
| | A. Integrated Manufacturers | B. Manufacturers | C. Importers of Fertilizers |
| a. Profit Margin | 12% of Total Cost of Sales | 10% of Total Cost of Sales | 8% of Total Cost of Sales |
| b. Equation for Reasonableness Criteria | If Net MRP + Subsidy \leq 1.12*Total Cost of Sales, profit margin is reasonable. | If Net MRP + Subsidy \leq 1.10*Total Cost of Sales, profit margin is reasonable. | If Net MRP + Subsidy \leq 1.08*Total Cost of Sales, profit margin is reasonable. |
| | If Net MRP + Subsidy $>$ 1.12*Total Cost of Sales, profit margin is unreasonable. | If Net MRP + Subsidy $>$ 1.10*Total Cost of Sales, profit margin is unreasonable. | If Net MRP + Subsidy $>$ 1.08*Total Cost of Sales, profit margin is unreasonable. |
| c. Total cost of sales | Cost of Production/Import (Except profit on self-manufactured intermediaries for manufacturing finished fertilizers) + Administrative Overheads + Selling and Distribution Overheads (Except promotional expenses) + Net Interest and Financing Charges/expenses (Actual interest expenses -Interest Income shown in P&L a/c). (GST/IGST paid on inputs/imports of fertilizers which are eligible for input tax credit will not be included in the total cost of sales.) | | |
| d. Dealer's margin | Deduction for dealer's margin will be allowed to the extent of 2% of MRP for DAP & MOP and 4% for MAP, TSP, NPKs, SSP, PDM and any other. | | |
| e. Discount | Deduction of any discount or promotional expenditure except prescribed dealer's margin would not be permitted. | | |
| f. MRP | Maximum Retail Price printed on Bag. | | |
| g. Net MRP | Net MRP = MRP – Dealer's Margin (2% of MRP for DAP & MOP and 4% of MRP for MAP, TSP, NPKs, SSP, PDM and any other) – Indirect Taxes (GST) on MRP | | |
| h. Net Interest and Financing Charges | No interest would be allowed beyond the Net Interest and Financing Charges/expenses i.e. (Interest and Financing | | |



| | |
|--|---|
| | Charges - Interest Income) (interest Income is the income shown in financial statement i.e. P&L account) in Total Cost of Sales. |
| i. Evaluation methodology | Profit margin has to be evaluated for entire P&K fertilizers segment-wise. However, Integrated Manufacturer, Manufacturer and Importer of Fertilizers will be considered as separate segment.(Inter-segment set-off of profit/loss will not be permitted) |
| A. Integrated manufacturers are | <ul style="list-style-type: none"> i. Companies which have/develop capacities in India covering the entire value chain from raw material stage i.e. rock phosphate and Ammonia to finished fertilizers i.e. DAP/NPKs in India; and ii. Companies which utilize 100% of their plant capacities; and iii. Companies which set-up new production facilities for chemical fertilizers, alternate innovative fertilizers (DAP/NPKs, Bio-fertilizers, Organic Fertilizers, PDM and SSP etc.) with capacity of at least 5 LMT; or Invest to increase the existing production capacity by at least 20% or at least 5 LMT, whichever is higher after 01.04.2023. |
| B. Manufacturers are | Those entities which are inducted under NBS Scheme with DoF as per guidelines for manufacturing and selling finished fertilizers manufactured in their own factory within India and which does not fall in the category of integrated manufacturers. |
| C. Importers are | Those entities which are inducted under NBS Scheme with DoF as per guidelines for selling imported finished fertilizers. |

Good