



Analyst Briefing FY 2022



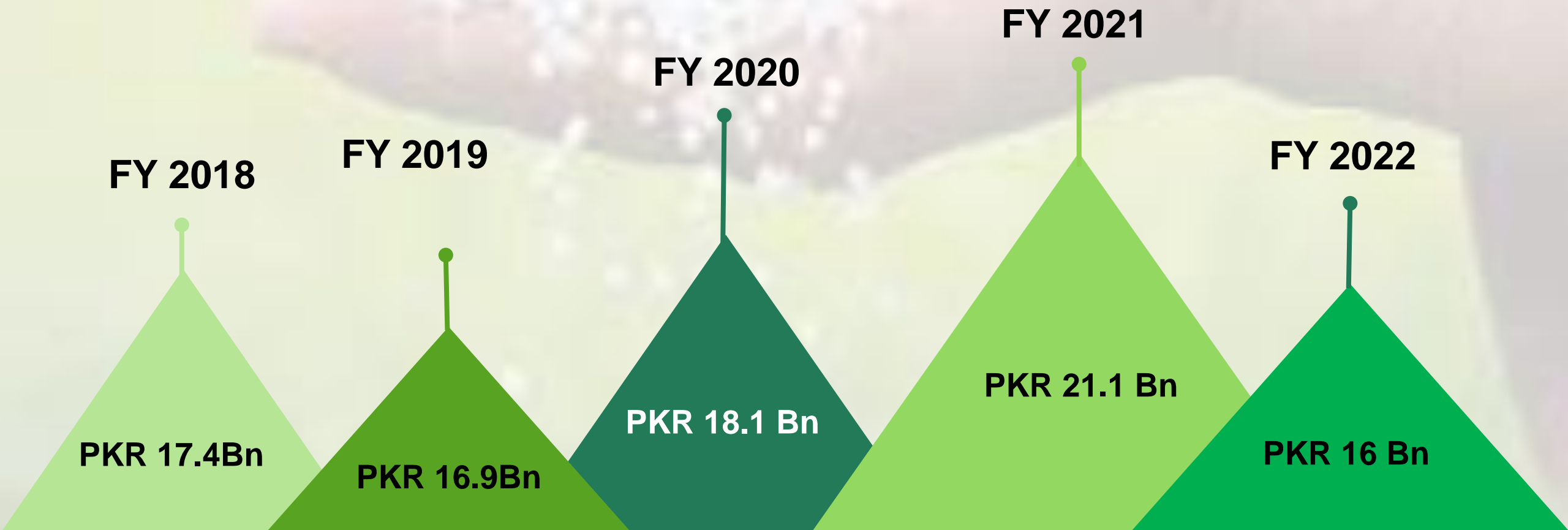
EFERT Highlights



FY Profitability analysis

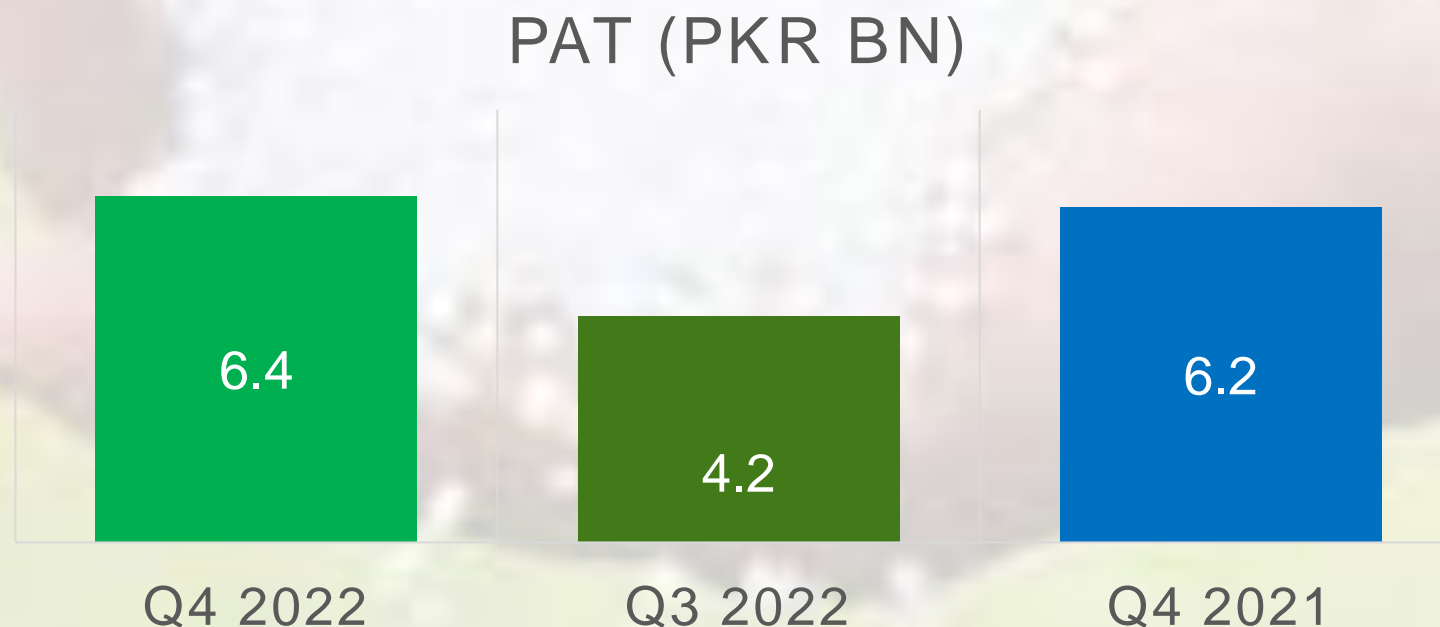
EFERT has announced a dividend of **PKR 5.0/share** for 4Q 2022 (2022 PKR 13.5/share) Vs the **PKR 5.0/share** in 4Q 2021 (2021: PKR 16.5/share)

Profit after tax





Our profitability through the quarters...



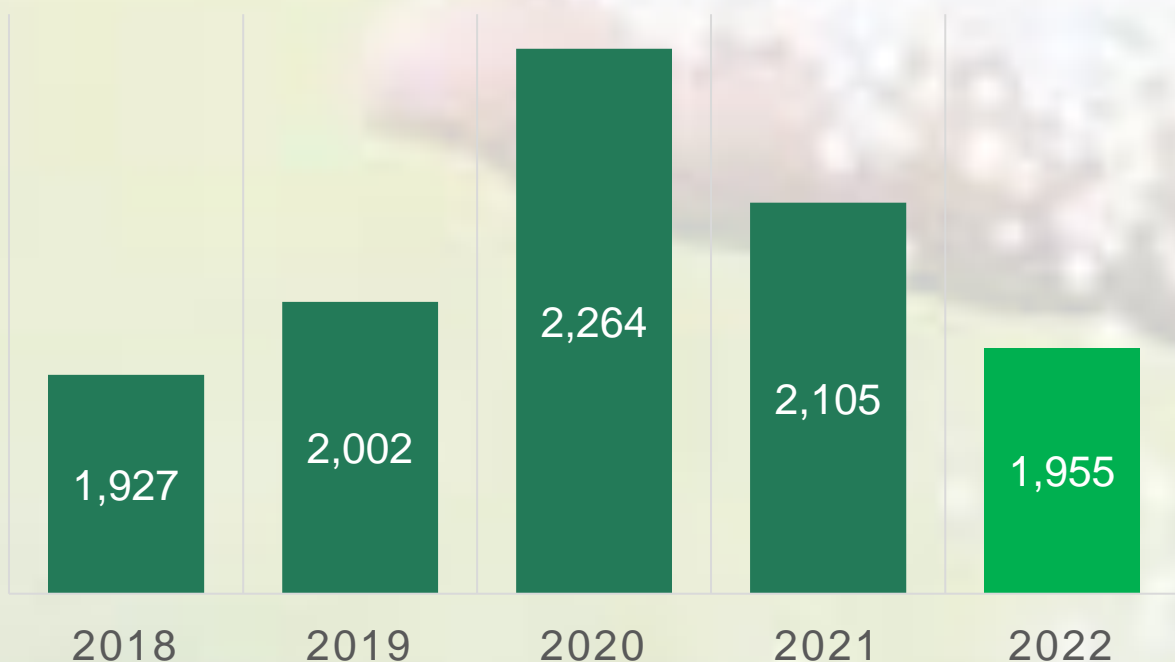
Q4 2022 Vs Q3 2022:

Higher PAT in Q4 2022 mainly due to reversal of provision for super tax (FY 2021) in accordance with Sindh High Court decision since the same is discriminatory. (Refer slide 15 for details).



Urea Production & Sales for FY 2022

UREA - PRODUCTION' KT



UREA - SALES' KT





Agri Sector Performance



Crop Economics

Earning from Rice is exceptionally increased, Wheat and Sugarcane earnings are at growing trend while Cotton is struggling due to production challenges



Wheat	2021-22	2022-23E
Total expense (PKR)	45,926	64,520
Fertilizer Expense (PKR)	12,000	15,200
Yield (Maund/Acre)	33	33
Grain Price (Rs/Maund)	2,150	3,000
Earning (PKR/Acre)	39,049	49,330

Wheat:

- Support price increased to 3000/Maund (Punjab) and 4000/Maund (Sindh)
- Current market prices are around 3600/Maund Vs 2300/Maund LY.
- Wheat (2022-23) was sown on 18.6 Mn Acres in Punjab And Sindh Vs 19.2 Mn Acres LY (3% Decline YOY), major area dip was in Sindh due to Inundation, seed availability issues.
- Farm economics is expected to grow by 26% due to better grain price.



Sugarcane	2021-22	2022-23E
Total expense (PKR)	99,485	114,230
Fertilizer Expense (PKR)	12,500	17,400
Yield (Maund/Acre)	770	740
Cane Price (Rs/Maund)	245	300
Earning (PKR)	89,200	107,800

Sugarcane:

- Support price increased to Rs 300/Maund (Punjab) and 302/Maund (Sindh)
- Due to firm sugar prices (local and Int'l both), cane is fetching better prices and earning is expected to improve by 20.9%
- Sugarcane was sown on 3.26 Mn Acres Vs 3.11 Mn Acres LY (4.8% Up YOY)



Cotton	2021-22	2022-23E
Total expense (PKR)	56,281	73,093
Fertilizer Expense (PKR)	10,804	16,600
Yield (Maund/Acre)	20.5	15.4
Phutti Price (Rs/Maund)	6,000	8,570
Earning (PKR)	66,719	58,885

Cotton:

- Cotton productivity (2022) decreased due to crop damage by adverse climate and floods especially in Sindh
- Farm earning dropped despite higher produce price vs LY (42% Up YOY) due to lower productivity
- Cotton was sown on 5.19 Mn Acres Vs 4.79 Mn Acres (8.4% Up YOY)



Rice - Basmati	2021	2022E
Total expense (PKR)	49,219	71,115
Fertilizer Expense (PKR)	9,142	18,175
Paddy Yield (Maund/Acre)	33	34
Paddy Price (Rs/Maund)	2,350	4,500
Earning (PKR)	28,330	81,890

Rice- Basmati:

- This year (2022) Rice fetched exceptionally high prices due to limited supply and higher demand
- Rice was sown on 7.38 Mn Acres Vs 8.74 Mn Acres (15.4% decline YOY) due to water avails issues at the time of sowing.



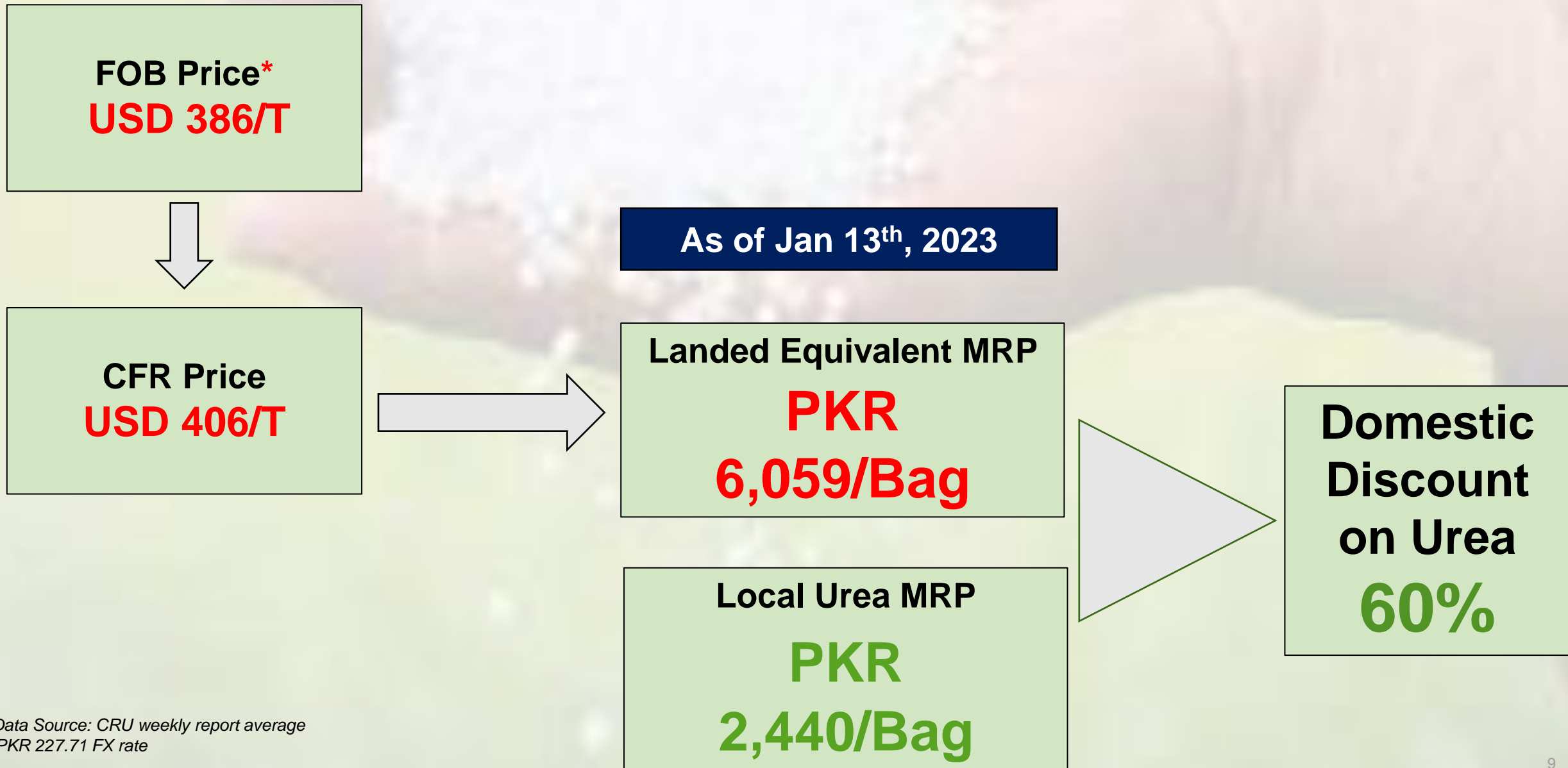
International Urea Prices at a Premium of over 66%



*Data Source: CRU weekly report average
~PKR 224.69 FX rate



International Urea Prices at a Premium of over 60%



*Data Source: CRU weekly report average
~PKR 227.71 FX rate

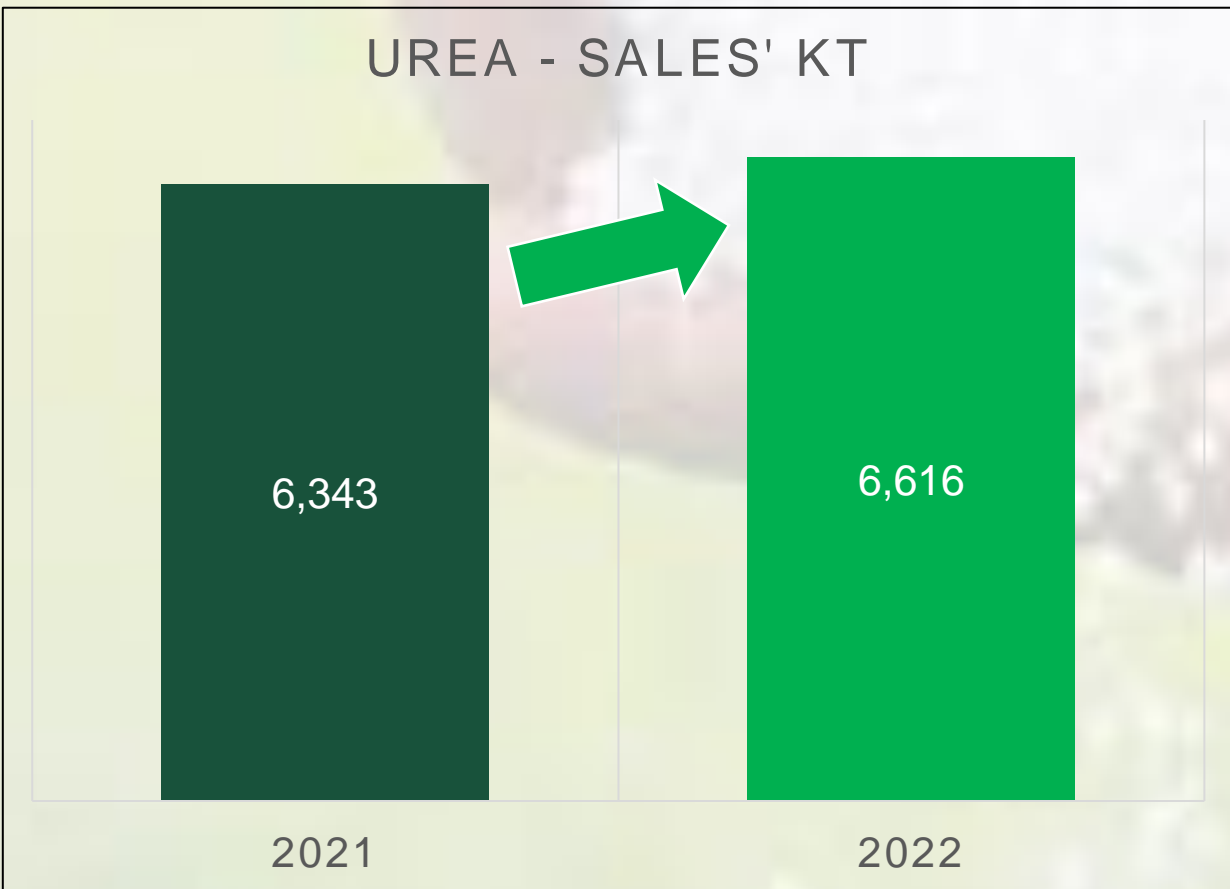


Industry & EFERT Business Performance



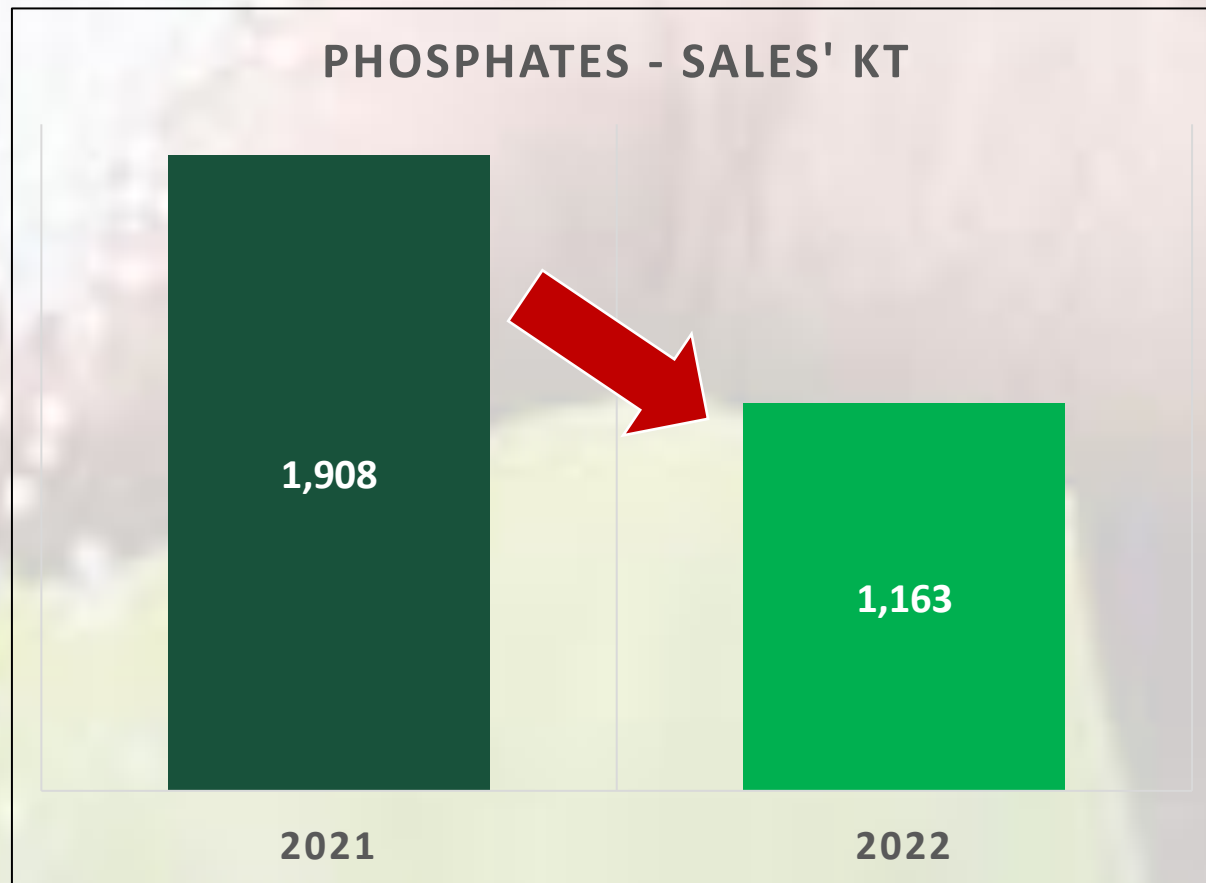
Increasing DAP prices has significantly affected the market

UREA - SALES' KT



Urea industry has grown by 4%

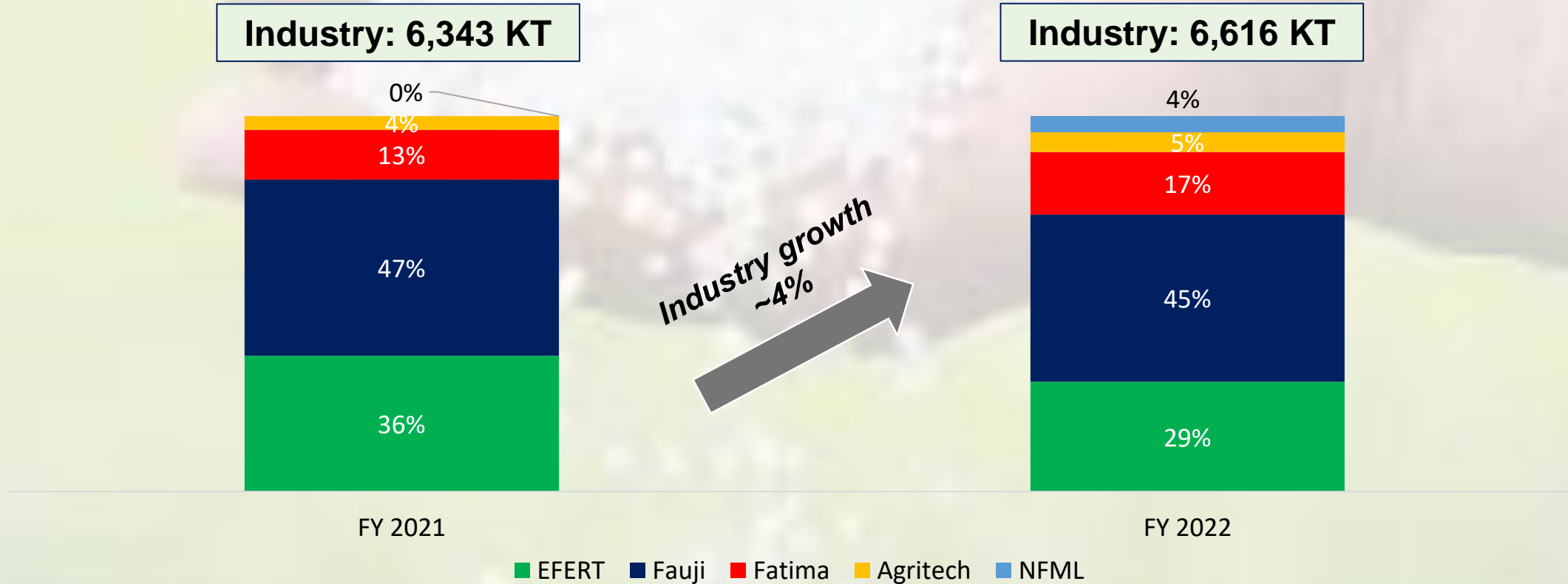
PHOSPHATES - SALES' KT



Phosphates industry has declined by of 39%.

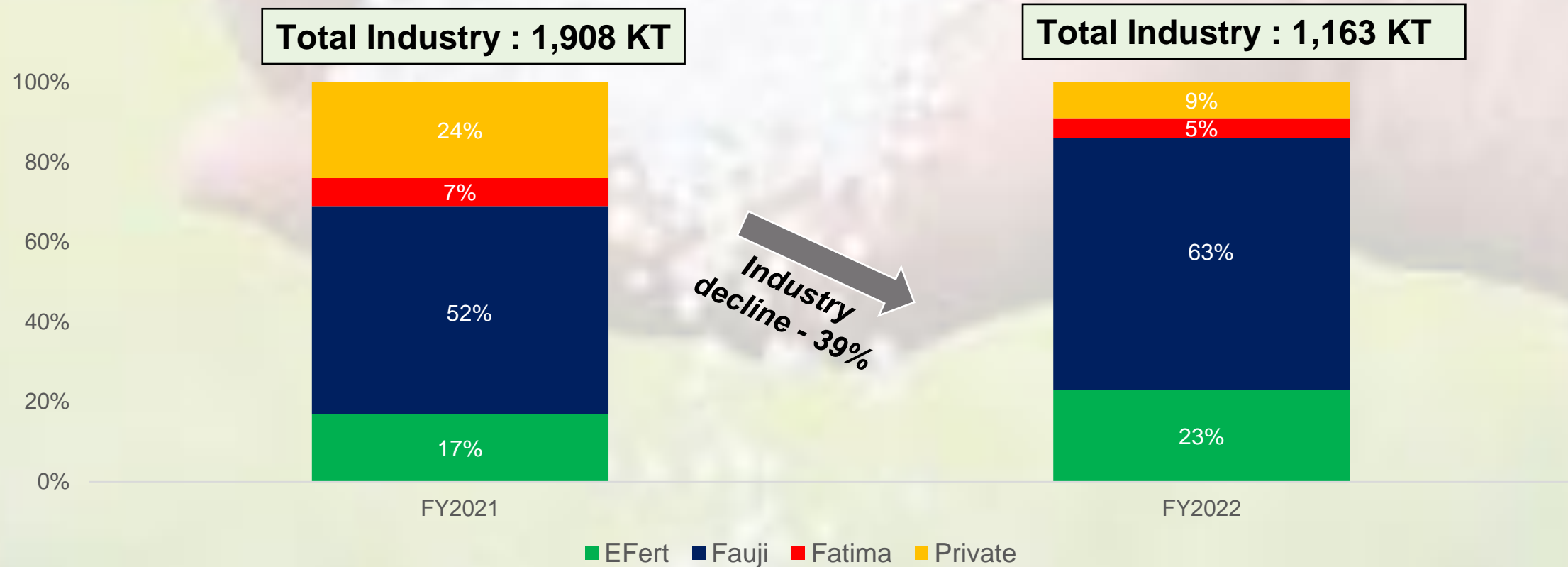


Industry & Market Share – Urea FY 2022





Industry & Market Share – Phosphates FY 2022





Major Enactments & Necessary support required from Government



Major Enactments and Changes

1 Super Tax on High Income Earning Persons

- Sindh High Court (SHC) decided the petitions in relation to Super tax under section 4C of the ITO, 2001:
 - ✓ Retrospective application of the super tax is not applicable for tax year 2022, and
 - ✓ One time additional 6% imposed on specific sectors is ultra vires as the same is discriminatory.
- The SHC later issued detailed written order which contains the legal arguments put forth by the legal counsels and the thought process applied by the Court to arrive at its decision.
- Being cognizant of the arguments made in the order and after discussion with our external legal counsel, who is confident about ultimate favorable decision in Supreme Court (as same is discriminatory), provision relating to 6% additional super tax has been reversed (PKR 1.8Bn).



Support from Government required

1 Sales Tax & Refunds

- Significant mismatch between higher input tax and lower output tax on fertilizers led to piling up of substantial sales tax refunds.
- To avoid further piling up of refunds, Government through Finance Act 2022, **exempted fertilizers from sales tax effective July 01, 2022. This means that input GST now becomes a cost (previously claimable) and output GST can no longer be levied.**
- The exemption has therefore resulted in **increase in price** of the fertilizer products.
- However, the industry is still facing challenge **in recovering outstanding sales tax refunds** from the Government.
- Sales tax refund for the **Industry** is **PKR 71 Bn.** as of Dec 2022 whereas **EFERT's** share is **Rs. 12.4 Bn.** (Dec 21: Rs. 8.9 Bn).

2 Expiry of Concessionary Gas

- The concessionary gas period for Efert was set to end on June 24, 2021.
- ECC in its decision dated January 1, 2014 stated “*Since, **SNGPL** remained **unable in supplying contracted volumes** of gas to Engro, it is recommended that maximum period of 10 years for concessionary pricing **may be extended by the number of days for which SNGPL could not supply gas for operation of the plant**”.*
- The Company has obtained an **ad interim stay Order** from the Sindh High Court.

3 Subsidy Receivable

- **The industry is facing a challenge in recovering outstanding subsidy receivable from the Government.**
- Industry subsidy receivable – **Rs. 19.2 Bn.**
- EFERT subsidy receivable as of Dec 2022 – **Rs. 6.5 Bn**, outstanding **since 2018** (represent gross amount before any accounting adjustment).



Special Items For Discussion

S. No	Topic
1.	Fertilizer Industry's contribution towards the Nation
2.	Spend on Urea is a minor cost out of total farmer expense
3.	Urea price disparity and its implication
4.	Significant updates

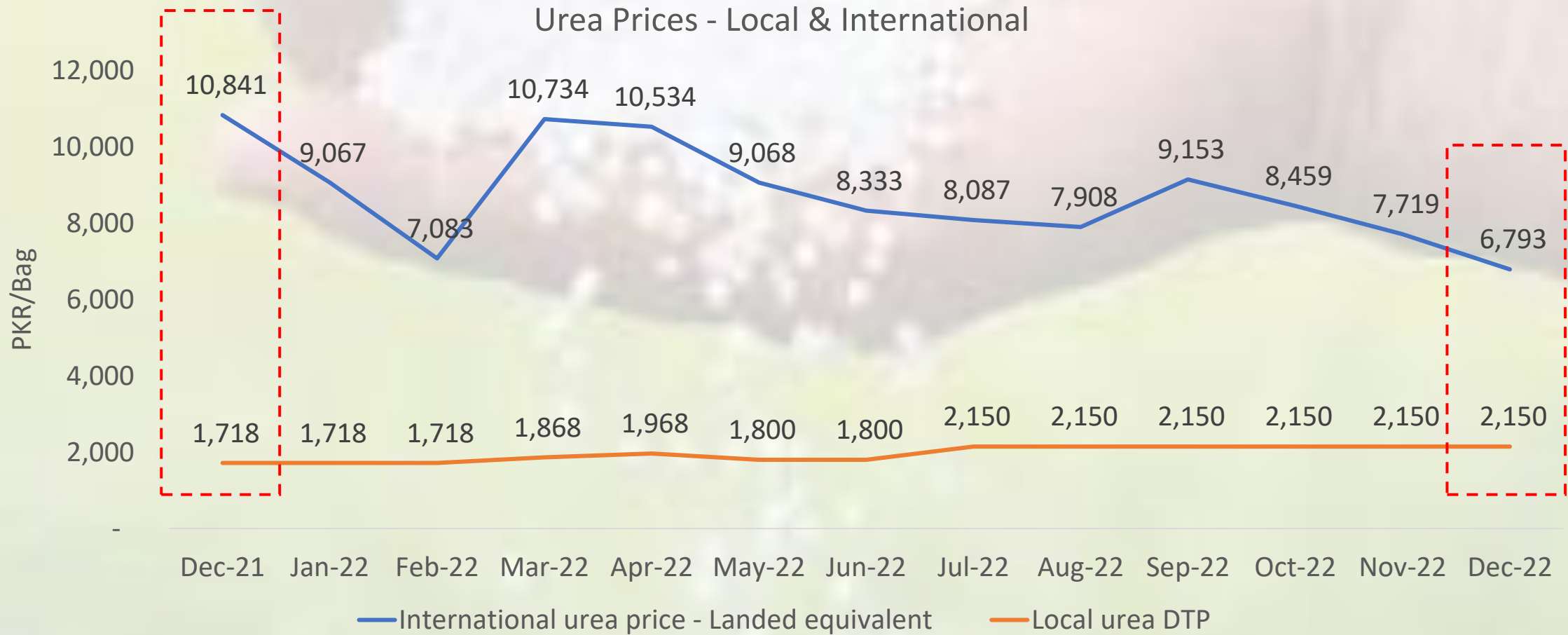


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Fertilizer Industry's contribution towards the Nation



Fertilizer industry has shielded the farmers from international urea price rise





As a result, fertilizer sector has passed over **4X** benefit to farmers

Farmer Benefit and Subsidy 2010 – 2022 (PKR Bn)



Gas price benefit of over 4X has been passed on to the farmers in the form of lower urea prices



Industry provides significant import substitution and benefit to farmers

Annualized Import Substitution enabled by Fertilizer sector based on Spot international prices

~USD
3.0
Billion*

~USD 23/bag

Annualized benefit to domestic farmers based on Spot international prices

~PKR
590
Billion**

~PKR 4,455/bag

*International Spot price of USD 657/ton (CFR) assumed with expected local annual production of 6.6MT.

**Delta between international price & local urea prices as of December 30th, 2022, multiplied by expected annual production of 6.6MT.



Benefit passed through urea pricing is almost **5X**

Benefit passed on by fertilizer sector in the form of lower urea prices

- International MRP prices - PKR *6,705/bag
- Local MRP - PKR 2,250/bag

PKR. 4,455 /bag

~5X

PKR. 902 /bag

Feed gas subsidy provided by GOP to fertilizer sector

- FP 2001 Feed rate - PKR. 302/MMBTU
- Industrial policy rate - PKR 1,054 /MMBTU

*Spot price is as per week ended 30th December.
USD Exchange rate: 224.69



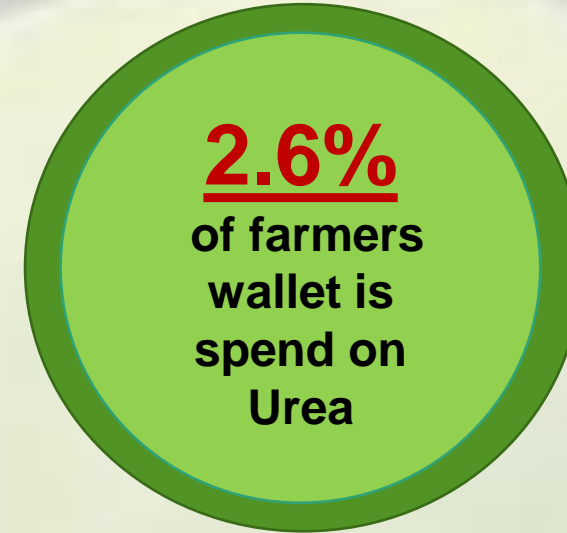
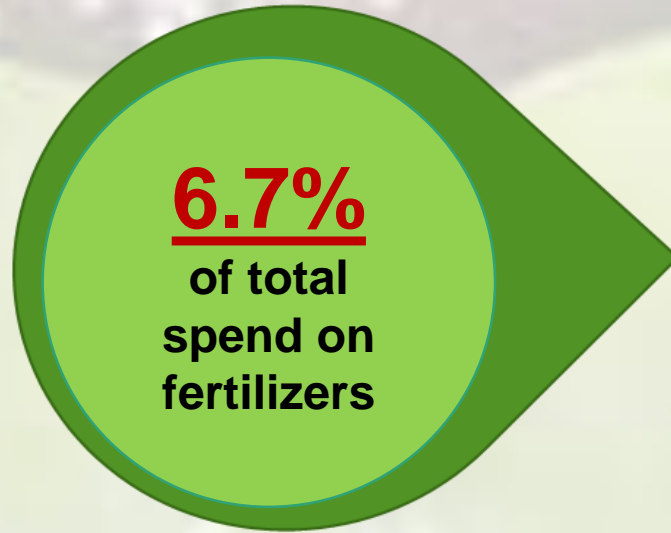
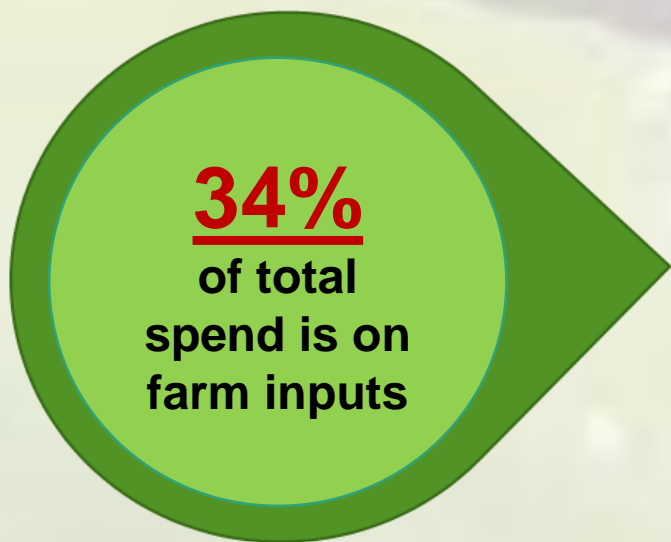
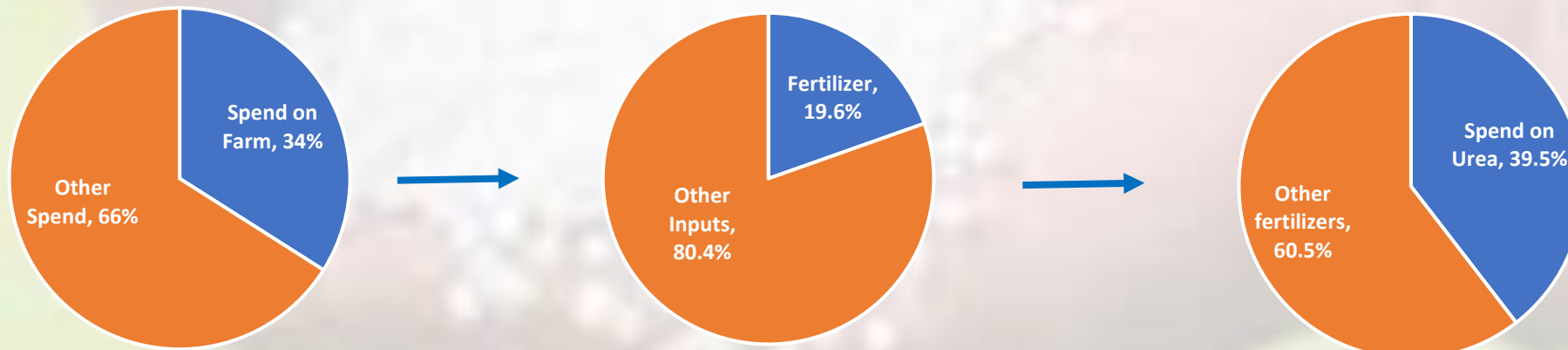
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**Spend on Urea is a minor proportion
of the total farmer expense**



Farm Household Spend and Share of Urea

Spend on Urea is minor cost out of total household spend



- Spend on farm and fertilizers is taken from Farm Account Study 2016-17 by Punjab Economic Res Institute, Govt of Punjab (Refer next slide)
- Urea share is calculated on current prices of Fertilizers and offtake from NFDC monthly reports

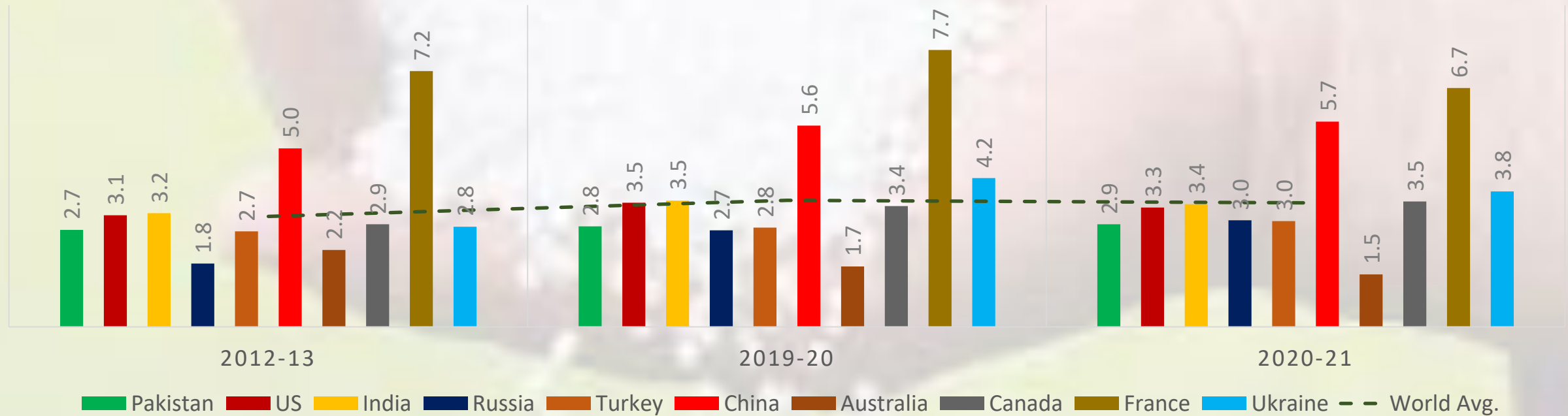


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Urea price disparity and its implication



Wheat production yield (tonnes per hectare)



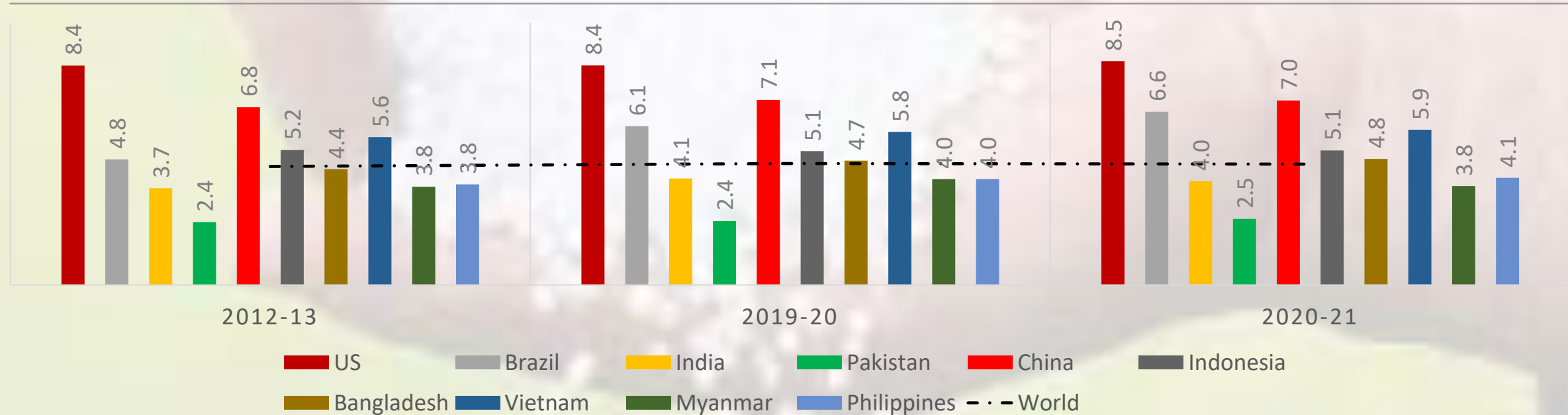
Notes:

- All above countries are part of **top 10 wheat producing countries**.
- **France** and **China** are continuously **leading in production yields**.
- **Pakistan's yield has increased from 2.7 t/ha in 2012-13 to 2.9 t/ha in 2020-21 but is still lower than world average of 3.5 t/ha.**
- **Russia** has been **leading** with **highest growth** over the years i.e., CAGR of 6.7%.

Country	CAGR (2012-2021)
Pakistan	0.7%
US	0.9%
India	1.0%
Russia	6.7%
Turkey	1.3%
China	1.8%
Australia	-4.6%
Canada	2.5%
France	-0.8%
Ukraine	3.9%
World Avg.	1.5%



Rice production yield (tonnes per hectare)



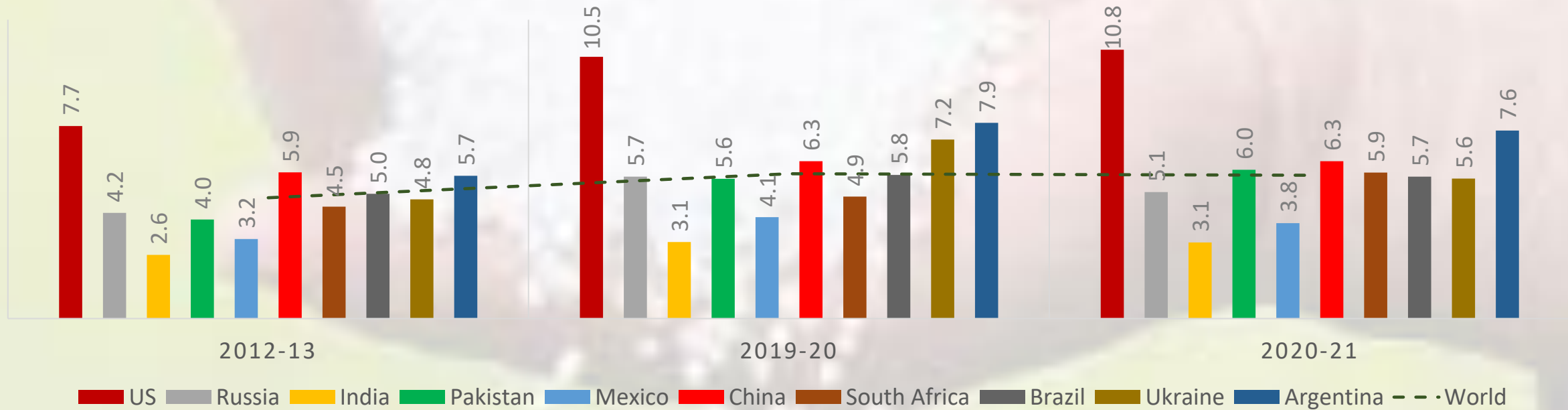
Notes:

- All above countries are part of **top 10 rice producing countries**.
- **US** and **China** are continuously **leading in production yields**.
- **Pakistan's yield has slightly improved from 2.4 t/ha in 2012-13 to 2.5 t/ha in 2020-21 but is still significantly lower than world average of 4.6 t/ha.**
- **Brazil** has been leading with **highest growth** over the years i.e., CAGR of 4.1%.

Country	CAGR (2012-2021)
US	0.3%
Brazil	4.1%
India	0.9%
Pakistan	0.6%
China	0.5%
Indonesia	0.0%
Bangladesh	1.1%
Vietnam	0.6%
Myanmar	0.1%
Philippines	0.8%
World Avg.	0.2%



Maize production yield (tonnes per hectare)



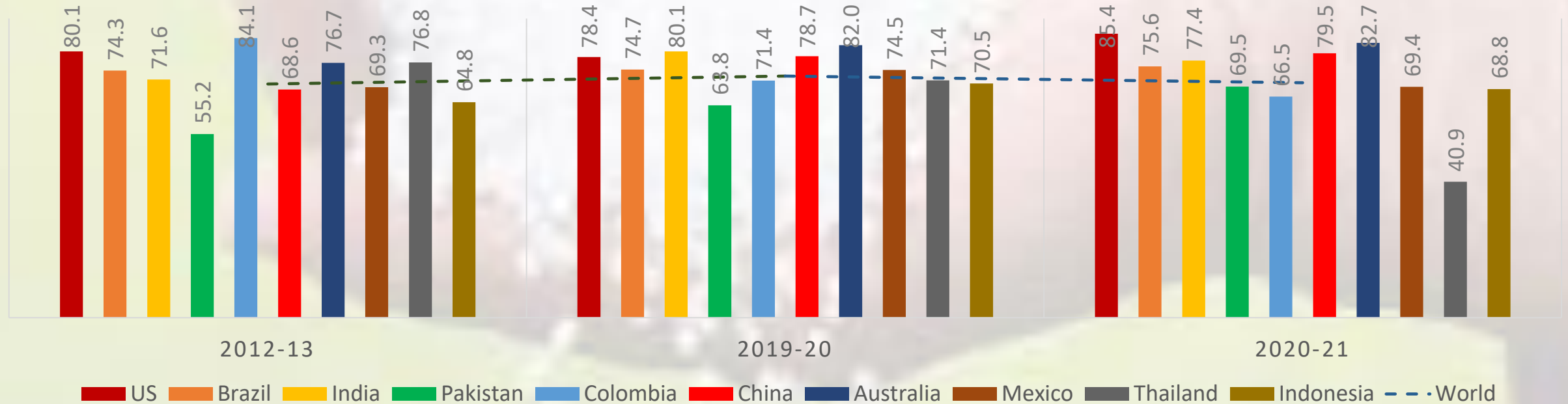
Notes:

- All above countries are part of **top 10 maize producing countries** (except Pakistan).
- **US** is continuously **leading in production yields**.
- **Pakistan's yield has significantly improved** from **4 t/ha** in 2012-13 to **6 t/ha** in 2020-21 (1.5 times) and has **recently surpassed world average** of 5.8 t/ha.
- **Pakistan** has been leading with **highest growth** over the years i.e., CAGR of 5.2%.

Country	CAGR (2012-2021)
US	4.3%
Russia	2.3%
India	2.3%
Pakistan	5.2%
Mexico	2.3%
China	0.9%
South Africa	3.4%
Brazil	1.6%
Ukraine	2.0%
Argentina	0.3%
World Avg.	0.2%



Sugarcane production yield (tonnes per hectare)



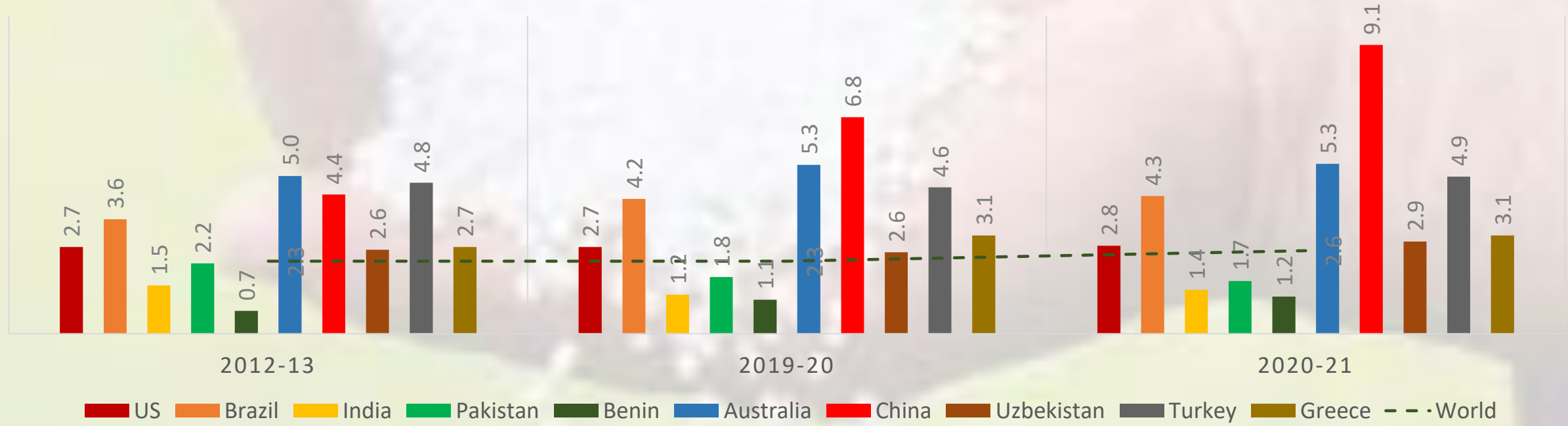
Notes:

- All above countries are part of **top 10 sugarcane producing countries**.
- **US, China and Australia** are **leading in production yields**.
- **Pakistan's yield has significantly improved from 55.2 t/ha in 2012-13 to 69.5 t/ha in 2020-21 (1.3 times) but is still slightly lower than world average of 70.6 t/ha.**
- **Pakistan** has been leading with **highest growth** over the years i.e., CAGR of 2.9%.

Country	CAGR (2012-2021)
US	0.8%
Brazil	0.2%
India	1.0%
Pakistan	2.9%
Colombia	-2.9%
China	1.9%
Australia	0.9%
Mexico	0.0%
Thailand	-7.6%
Indonesia	0.7%
World Avg.	0.1%



Cotton production yield (tonnes per hectare)



Notes:

- All above countries are part of **top 10 cotton producing countries**.
- **China** is continuously **leading in production yields**.
- **Pakistan's yield has significantly dropped** from 2.2 t/ha in 2012-13 to 1.7 t/ha in 2020-21 and is currently **below world average of 2.6 t/ha**.
- **China** has been leading with **highest growth** over the years i.e., CAGR of 9.5%.

Country	CAGR (2012-2021)
US	0.2%
Brazil	2.3%
India	-1.2%
Pakistan	-3.5%
Benin	0.0%
Australia	0.9%
China	9.5%
Uzbekistan	1.2%
Turkey	0.5%
Greece	1.6%
World Avg.	1.7%



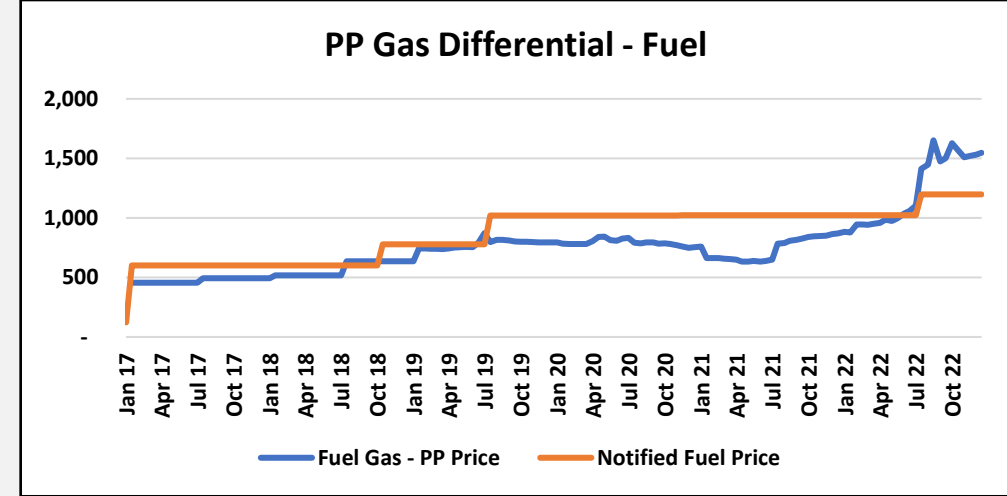
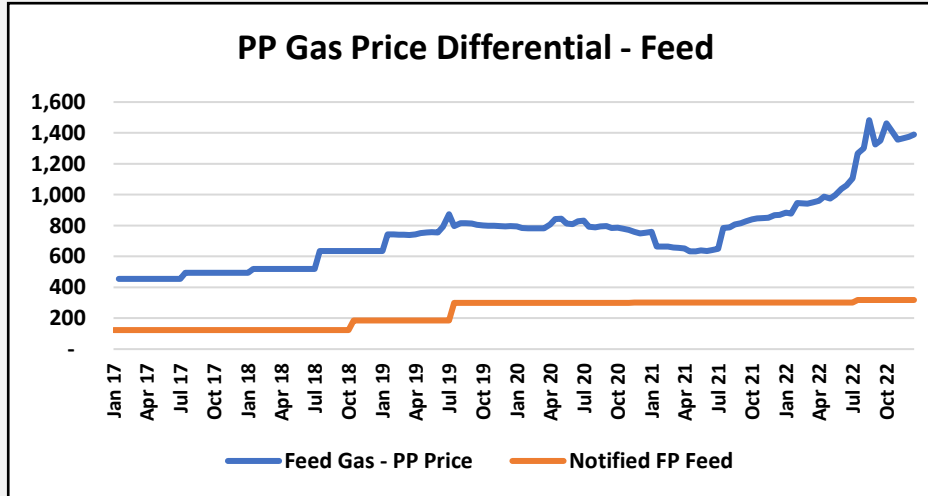
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Significant updates



PP Gas Cost Disadvantage

- EFERT is the only fertilizer manufacturer in the country that is at a significant cost disadvantage as it has been receiving a substantial portion of its feed and fuel gas priced under the PP 2012 for urea production from its base plant.
- With high commodity prices and **continued devaluation of the rupee**, this disadvantage has **worsened to a point** where EFERT is now paying **over 4 times price** for its base plant feed gas. Even the PP fuel price has surpassed the FP fuel price during 2022.
- The details of the disparity between FP & PP gas prices are given below:



MPCL Pressure Enhancement Facilities (PEF)



- EFERT, Fauji Fertilizer Company Limited and Fatima Fertilizer Company Limited (collectively the Fertilizer Manufacturers) have entered into a Framework Agreement in Nov 2022 (the Agreement) for Gas Pressure Enhancement Facilities (PEF) project.
- Under the Agreement, the Fertilizer Manufacturers have decided to jointly develop and install pressure enhancement facilities at Mari Petroleum Company Limited's (MPCL's) delivery node to sustain the current level of pressure of gas supply from HRL reservoir of MPCL.



Plant related updates

Base Plant Turnaround

- The Company undertook various maintenance, debottlenecking, balancing modernization and replacement activities for the Base Plant which were initiated on Sep 27, 2022.
- The Base Plant resumed commercial operation on Nov 27, 2022, after the successful completion of this turnaround with **zero TRIR**.
- The Base Plant is now capable of producing urea up to 950KT per annum.

EnVen Outages

- Two EnVen outages experienced:
 - The plant tripped on Nov 11, 2022, and came back online within 3 days.
 - Another tripping was experienced on Nov 23, 2022, and resumed operations on Dec 6, 2022.

Zarkhez plant shutdown

- Zarkhez plant has been fully/partially shutdown during Nov-2022 to Feb-2023 to better manage inventory levels of Zarkhez products.



EFERT- Our Reason for Being ?





engro fertilizers

a promise of growth

we grow nutrition

1/3 rd	37%
wheat crop served	rice crop served

we grow taste

40%
potato crop fields served

we grow fashion

40%
cotton crops served

we grow prosperity

PKR 5 Bn	PKR 17 Bn
PAT 2011	PAT 2018

we grow sustainability

USD 600 Mn
annual import substitution

we grow possibilities

crop protection

2x	5x
peak vol. of output vs competition	piece of growth vs competition

agri-logistics

4x	790
fleet growth by 2021	3 rd largest fleet in 3 years



we grow hope
&
dreams



Doing Good While Doing Well

Education

- Inauguration ceremony of new block of Sahara School was held where an additional 200 students will be inducted in the first phase



Healthcare

- 504 snake bite & 282 dog bite patients were treated.
- ~220 new patients were registered at our limb's replacement facility for upper and lower limbs.
- Free medical checkup and health education camp in religious institutions.

Environment

- Carried out Tree Plantation Drives, “Each One – Plant One” and “Hara Rang Dharti Ka” where a total of 6,500+ trees were planted across Pakistan.
- Under our “Clean and Green Environment” campaign, fruit trees were also donated to nearby villages of Daharki.





together we grow
Pakistan





Thank you