



# Analyst Briefing 1Q 2023

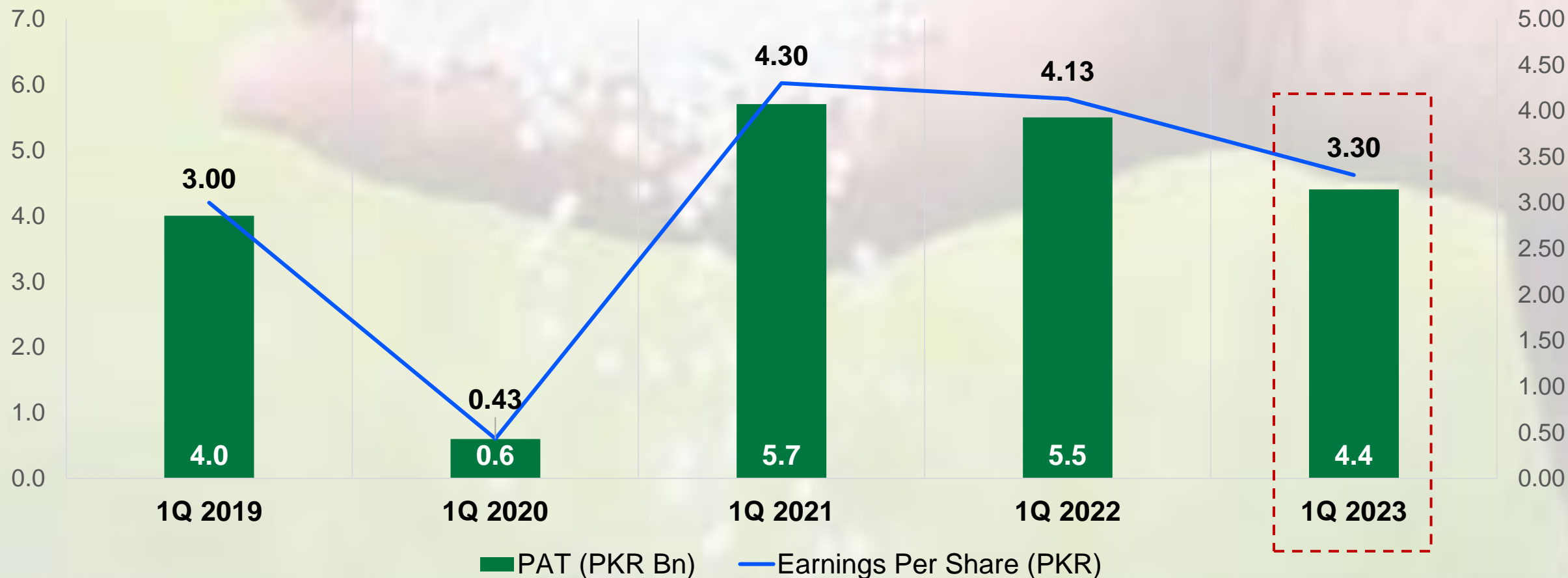


# EFERT Highlights



# Quarterly Profitability analysis

EFERT has announced an interim dividend of **PKR 3.5/share** for Q1 2023 v/s the PKR 5.5/Share in Q1 2022.



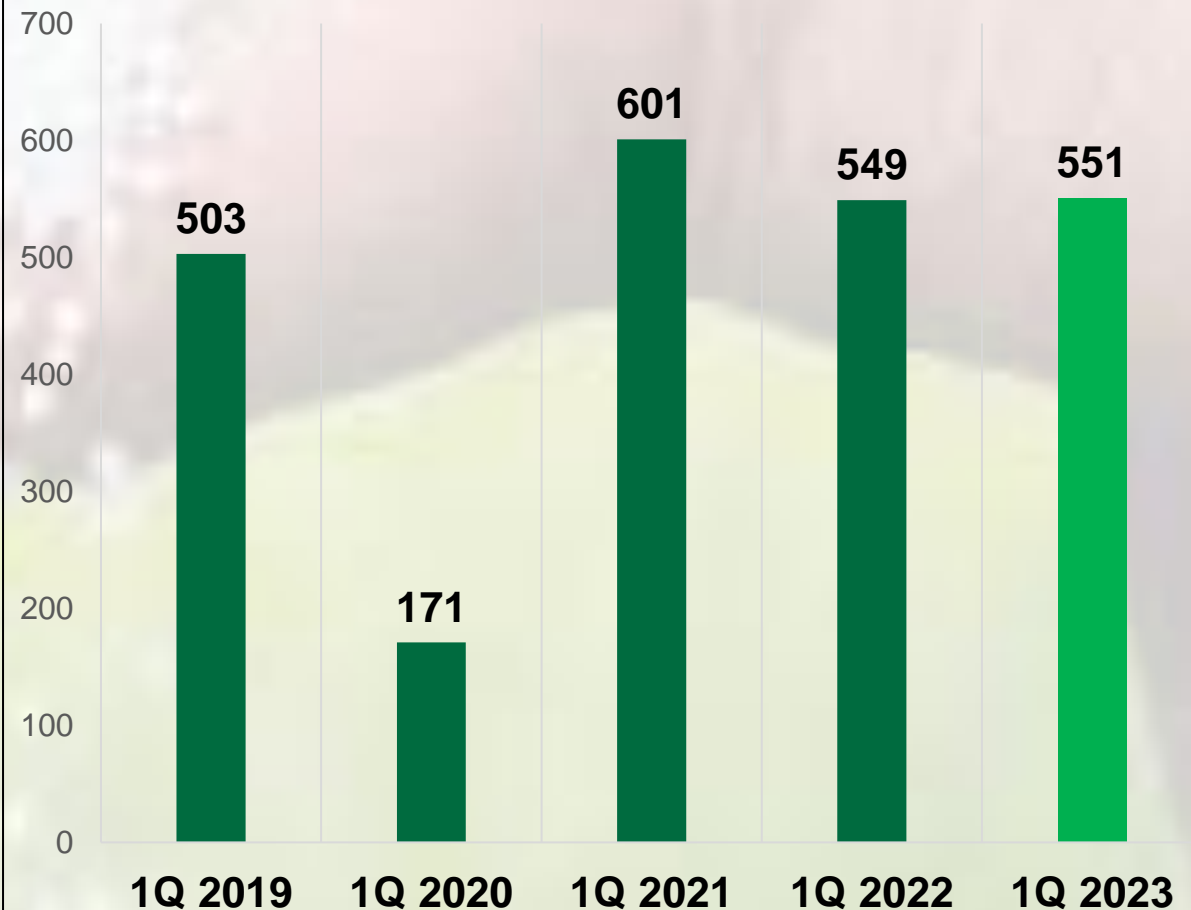


# Quarterly Urea Production & Sales

**UREA - PRODUCTION' KT**



**UREA - SALES' KT**





# Significant updates



# Rising Gas Cost

- During the quarter, EFERT faced massive escalation in cost of gas supplied under both Fertilizer and Petroleum Policy.

## **Petroleum Policy Gas:**

- EFERT was already at a significant cost disadvantage compared to other fertilizer manufacturers, as it is 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, **continued devaluation of the rupee** and **increase in PP notified rate**, i.e USD 5.9/mmbtu to USD 6.1/mmbtu, EFert's PP disadvantage has **worsened to a point** where we are now paying **~6 times vs other fertilizer players for base plant's feed gas**.

## **Fertilizer Policy Gas:**

- As per OGRA notification dated Feb 16, 2023, FP gas price for only the SNGPL/SSGC customers was increased from **Jan 1, 2023**.
- The said gas cost increase notification does not include pricing for **Mari network** and is the first time in recent history that the price of FP gas has been **increased for the SNGPL/SSGC network only**.



# Urea price increase & other updates

**PKR 554/bag**  
increase in  
Urea price  
(w.e.f. 31<sup>st</sup> Mar 2023)

- **EFert increased urea price by PKR 554/bag effective March 31, 2023.**
- This price increase was taken to mitigate the adverse impact of increase in gas costs pertaining to both Petroleum Policy gas pricing and Fertilizer Policy gas pricing

**Base Plant**  
**Outages**

- During this quarter, the Base plant experienced a **~5-day outage** on account of an issue with Gas turbine of air compressor which was timely repaired.

**Zarkhez plant**  
**resumption**

- Our Zarkhez plant, which produces specialty fertilizers and was fully/partially shutdown since Nov-2022, has **resumed its operations from March 1, 2023.**



# Agri Sector Performance





# Crop Economics

Significant increase in rice, wheat and sugarcane earnings in 2022-23 vs 2021-22.



## Wheat:

- Wheat (2022-23) was sown on 21.77 Mn Acres Vs 22.18 Mn Acres at National level (1.9% Decline YOY). However, major dip of 16.9% area Decline Vs LY was estimated in Sindh due to Inundation, seed availability issues etc.
- Going forward (2023-24), Area 22.9 Mn Acre (5.5% increase YOY) is expected due to expected normal year and sentiments of better grains prices Vs LY.

Wheat	2021-22	2022-23P	2023-24P
Total expense (PKR)	45,926	72,013	81,523
Fertilizer Expense (PKR)	12,000	15,200	15,100
Yield (Maund/Acre)	33	33	33
Grain Price (Rs/Maund)	2,150	3,900	4,300
Straw Price (Rs/Maund)	425	450	500
<b>Earning (PKR/Acre)</b>	<b>39,049</b>	<b>71,538</b>	<b>76,877</b>



## Sugarcane:

- Concluding year 2022-23, cane fetched better prices due to higher demand and earning improved by 45.7% Vs LY (2021-22) despite lower productivity due to heat wave and floods during Q3 2022.
- Going forward, 3.16 Mn Acres Vs 3.26 Mn Acres LY (3% Decline YOY) due to rainfalls during March, farmers could not prepare land for sowing of Spring Sugarcane.

Sugarcane	2021-22	2022-23P	2023-24P
Total expense (PKR)	99,485	114,230	143,935
Fertilizer Expense (PKR)	12,500	17,400	21,500
Yield (Maund/Acre)	770	740	760
Cane Price (Rs/Maund)	245	330	350
<b>Earning (PKR)</b>	<b>89,200</b>	<b>130,000</b>	<b>122,100</b>



## Cotton:

- Cotton area (2023-24) is expected 5.44 Mn Acres Vs 5.19 Mn Acres LY (4.8% Up YOY) due to expected normal year, and sentiments of good produce price.
- Last year (2022), water shortage and heat wave factors resulted in dropped area.
- Farm earning is expected to grow due to better productivity and higher produce price, Last year productivity was dropped due to floods during Q3 2022.

Cotton	2021-22	2022-23	2023-24P
Total expense (PKR)	56,281	73,093	103,133
Fertilizer Expense (PKR)	10,804	16,600	18,500
Yield (Maund/Acre)	20.5	15.4	20.0
Phutti Price (Rs/Maund)	6,000	8,570	8,500
<b>Earning (PKR)</b>	<b>66,719</b>	<b>58,885</b>	<b>66,867</b>



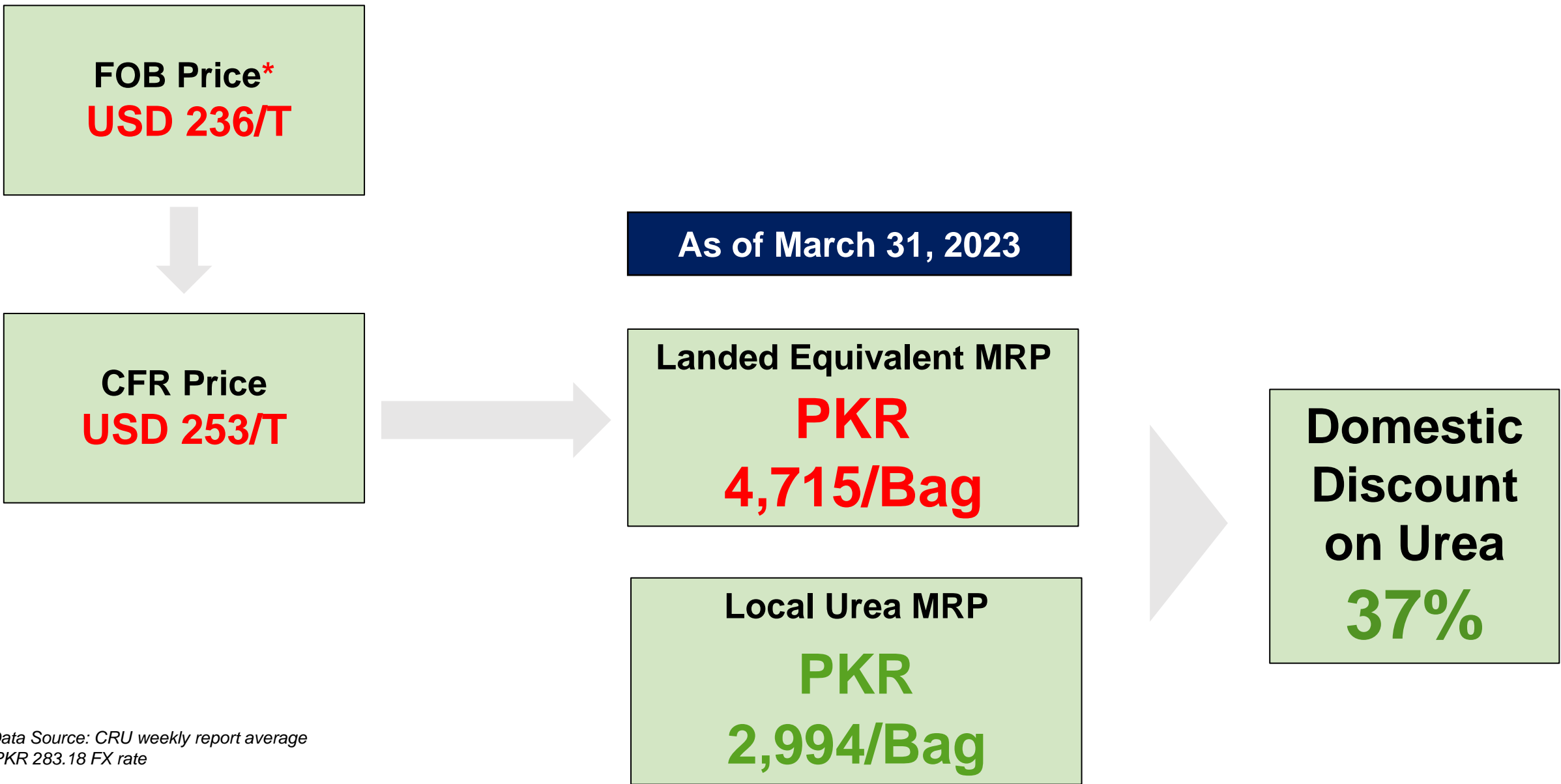
## Rice- Basmati:

- Concluding Year (2022), Rice fetched exceptionally high prices due to limited supply due to reduced area (15.5% decline YOY) factor and higher demand.
- Going forward (2023), Rice sown area is expected to be 8.4 Mn Acres Vs 7.39 Mn Acres (14% Up YOY) due to expected better water avails at the time of sowing.
- Farm earning is expected lower by 12% Vs LY due to ample supplies because of area factor and increased cost of production.(13% Up YOY)

Rice - Basmati	2021-22	2022-23	2023-24P
Total expense (PKR)	49,219	71,115	81,265
Fertilizer Expense (PKR)	9,142	18,175	16,000
Paddy Yield (Maund/Acre)	33	34	34
Paddy Price (Rs/Maund)	2,350	4,500	4,500
<b>Earning (PKR)</b>	<b>28,330</b>	<b>81,890</b>	<b>71,740</b>



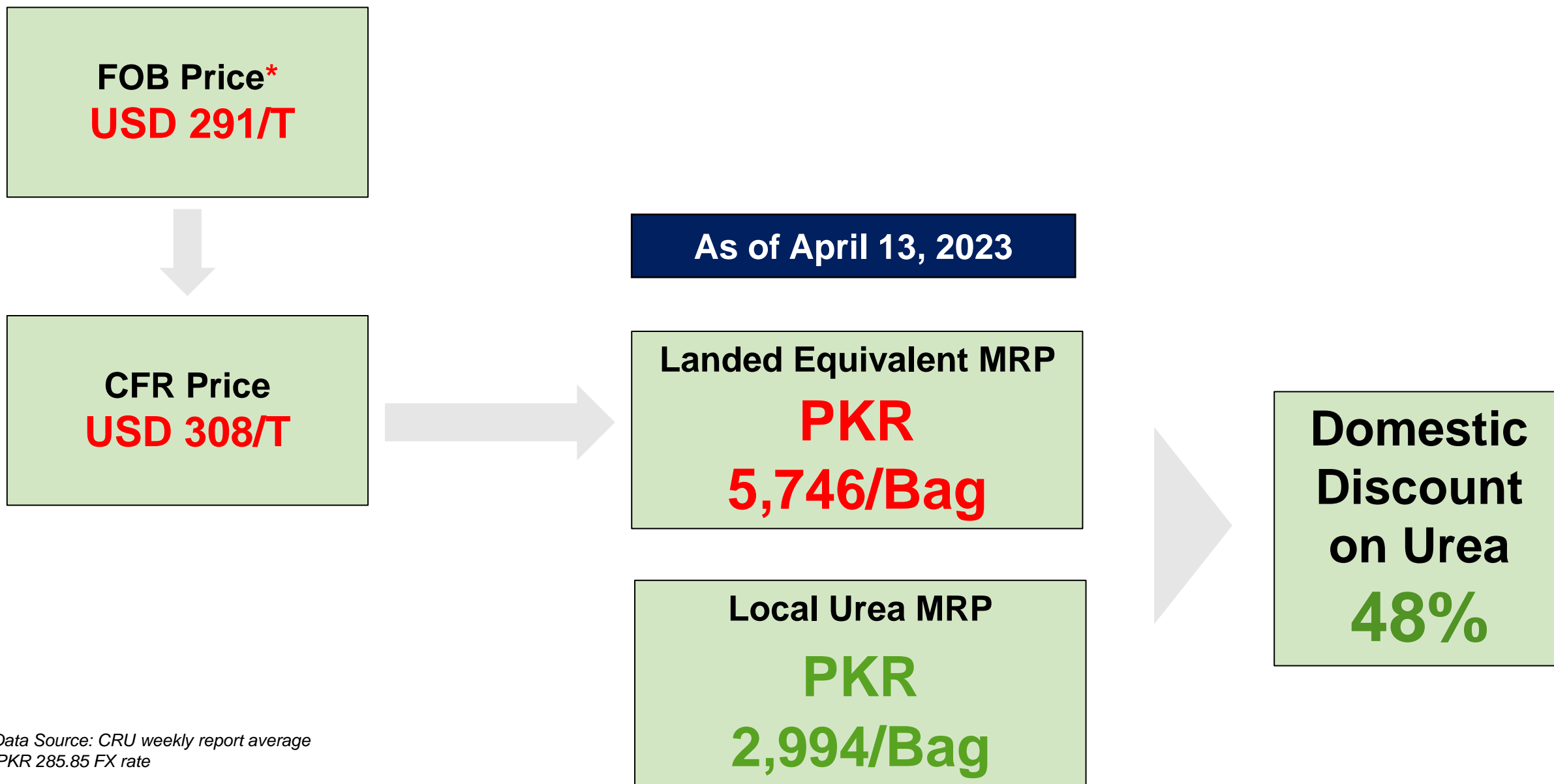
# International Urea Prices at a Premium of 37%



\*Data Source: CRU weekly report average  
~PKR 283.18 FX rate



# International Urea Prices at a Premium of 48% (Spot)



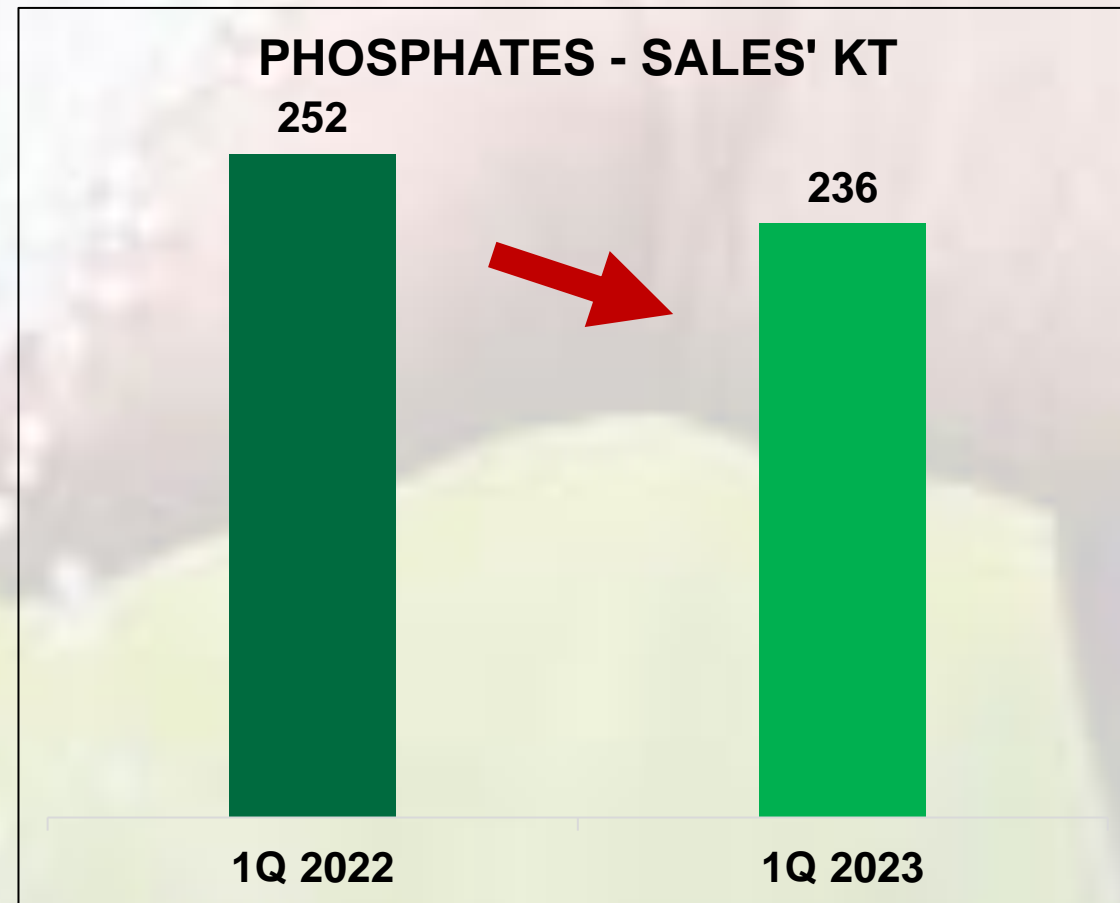
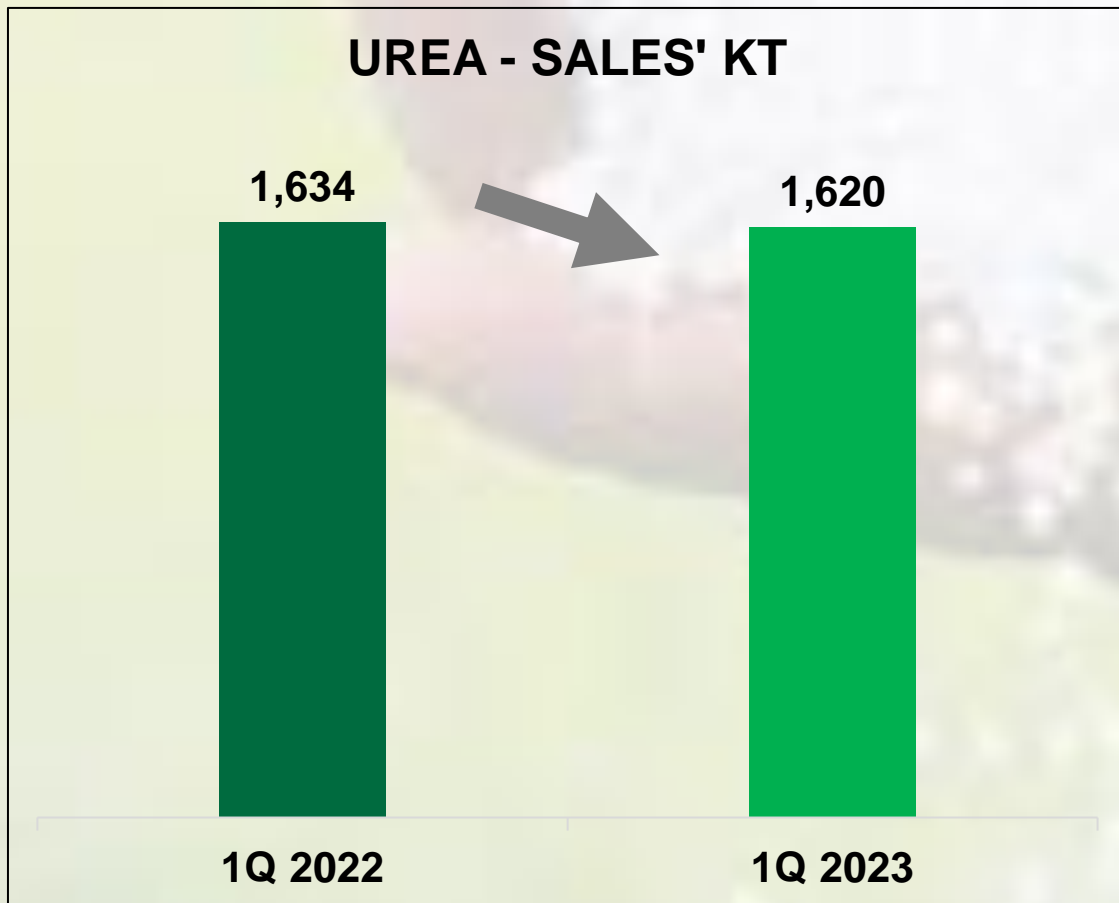
\*Data Source: CRU weekly report average  
~PKR 285.85 FX rate



# **Industry & EFERT Business Performance**



# Urea & DAP Industry in 1Q 2023

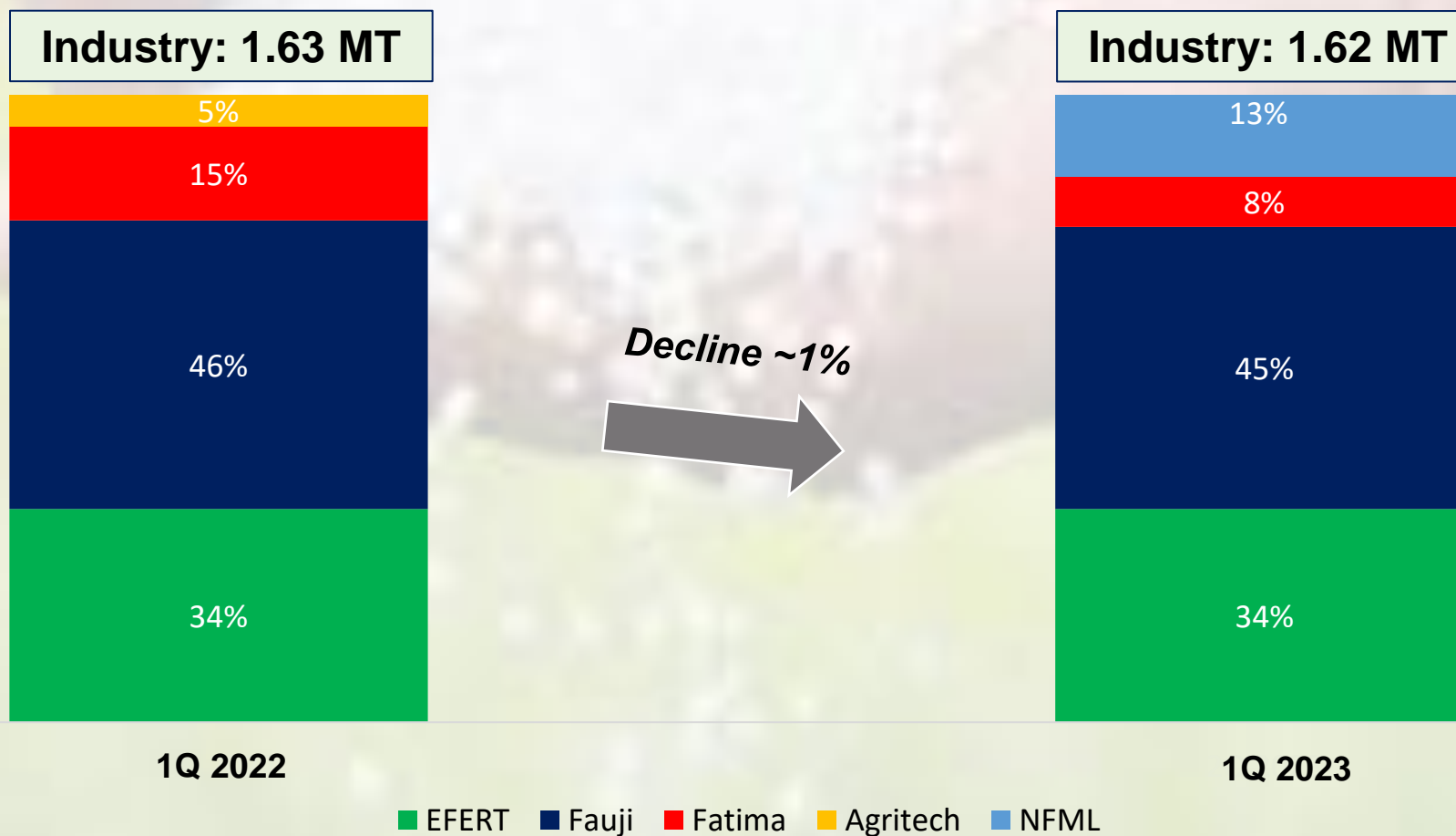


**Urea industry has declined by a negligible amount of ~1%**

**Phosphates industry has declined by 6%.**



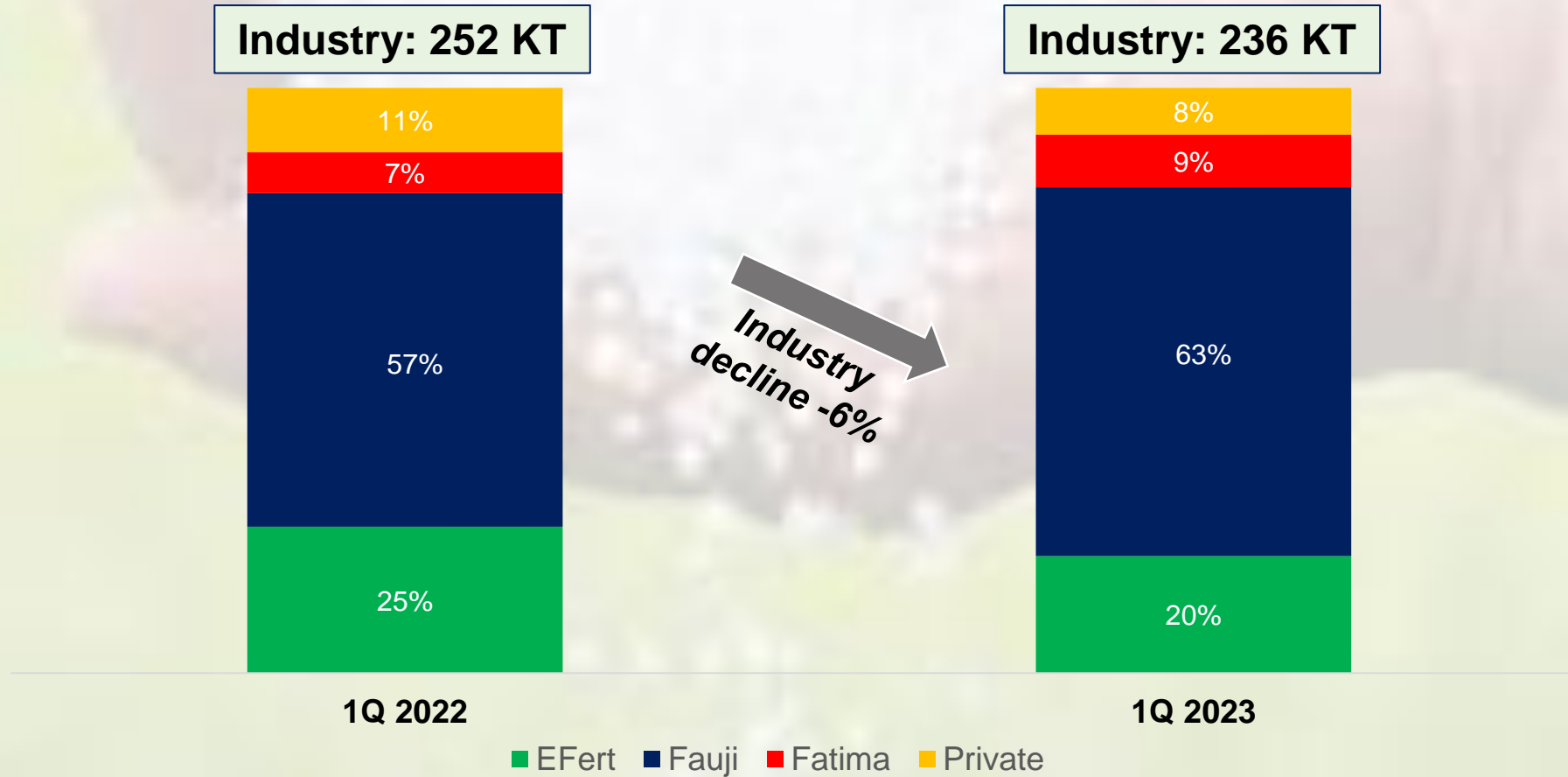
# Industry & Market Share – Urea 1Q 2023



- Insignificant Industry decline ~1%
- RLNG plants remained non-operational for most part of Q1 2022. During the last week of March, gas supply was initiated to these plants, and they will remain operational till May 31, 2023 as per the direction of ECC



# Industry & Market Share – Phosphates 1Q 2023



- International DAP prices witnessed decline during 1Q 2023.
- However, local prices increased mainly due to dollar devaluation which increased landed cost of product.



# Support required from Government





# 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 Mar 2023 whereas **EFERT's** share is **PKR 12.2 Bn.** (Dec 22: PKR 12.4 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 Mar 2023 – **Rs. 6.5 Bn**, outstanding **since 2018** (represent gross amount before any accounting adjustment).



# Other 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



1

# **Fertilizer Industry's contribution towards the Nation**



# Fertilizer industry has shielded the farmers from international urea price rise

Urea Prices - Local & International



Even after a substantial decline in international prices, local urea is significantly cheaper

5,646  
2,894



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

Farmer Benefit and Subsidy 2010 – Q1 2023 (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  
1.7  
Billion\*

~USD 13/bag

Annualized benefit to domestic farmers based on Spot international prices

~PKR  
230  
Billion\*\*

~PKR 1,721/bag

\*International Spot price of USD 253/ton (CFR) assumed with expected local annual production of 6.6MT.

\*\*Delta between international price & local urea prices as of March 31<sup>st</sup>, 2023, multiplied by expected annual production of 6.6MT.



# Benefit passed through urea pricing is more than **2X**

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

- International MRP prices - PKR \*4,715/bag
- Local MRP - PKR 2,994/bag

**PKR. 1,721 /bag**

**~2X**

**PKR. 828/bag**

## Feed gas subsidy provided by GOP to fertilizer sector

- FP 2001 Feed rate - PKR. 510/MMBTU
- Industrial policy rate - PKR 1,200 /MMBTU

\*Spot price is of 31<sup>st</sup> March.  
USD Exchange rate: 283.18



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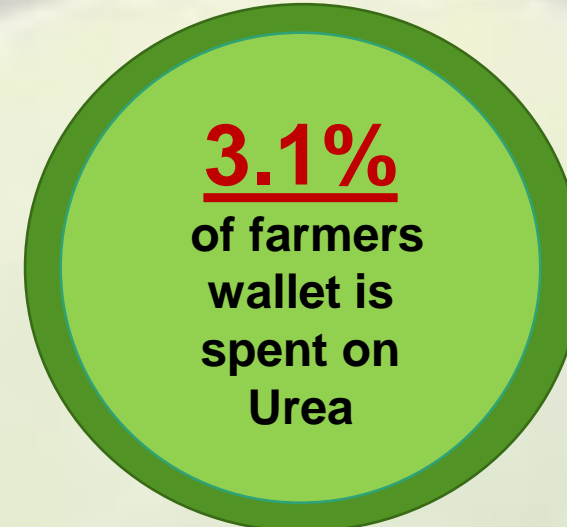
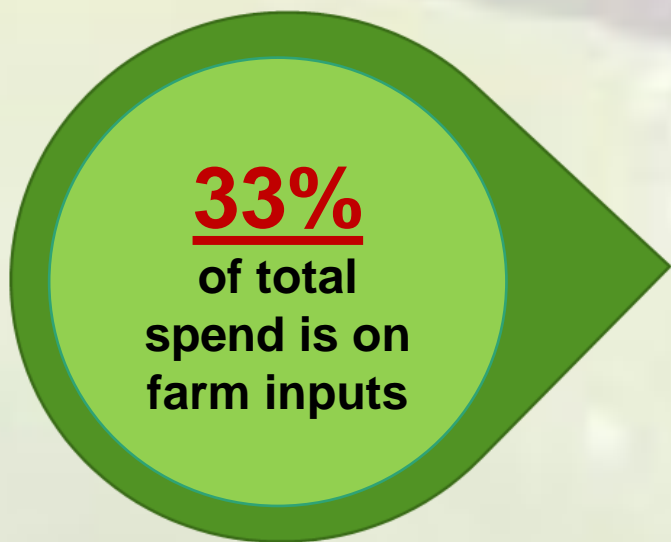
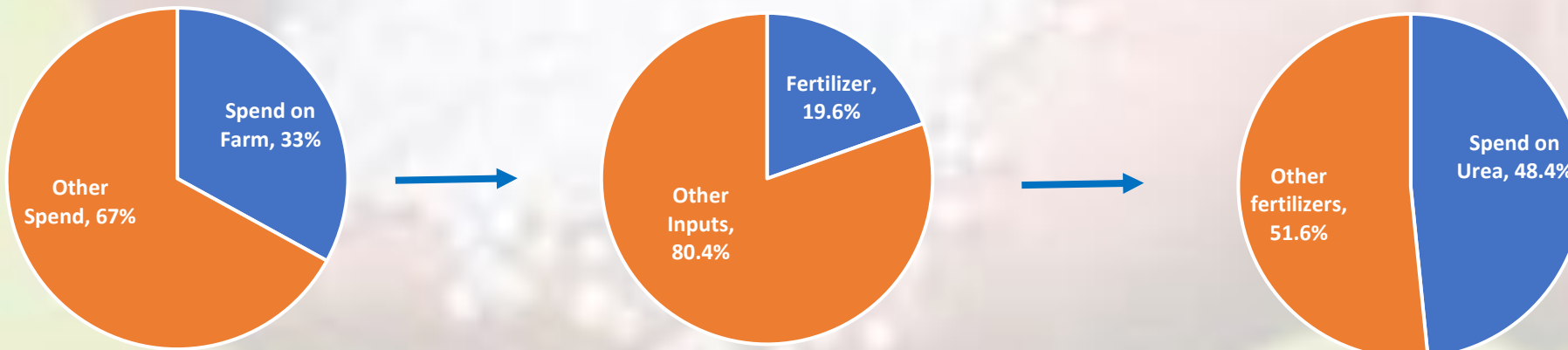
**Spend on Urea is a minor proportion  
of the total farmer expense**





# Farm Household Spend and Share of Urea

Spend on Urea is a 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
- Urea share is calculated on current prices of Fertilizers and offtake from NFDC monthly reports



**Thank you**