



Analyst Briefing H1 2023

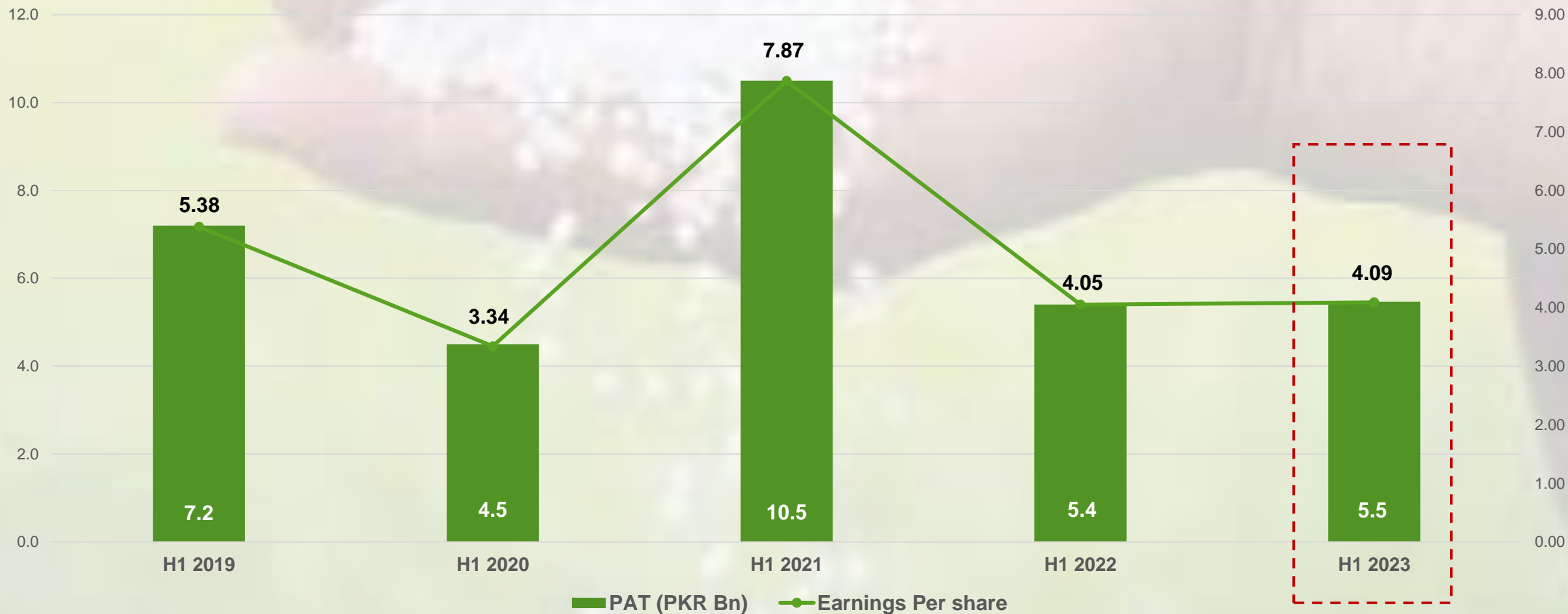


EFERT Highlights



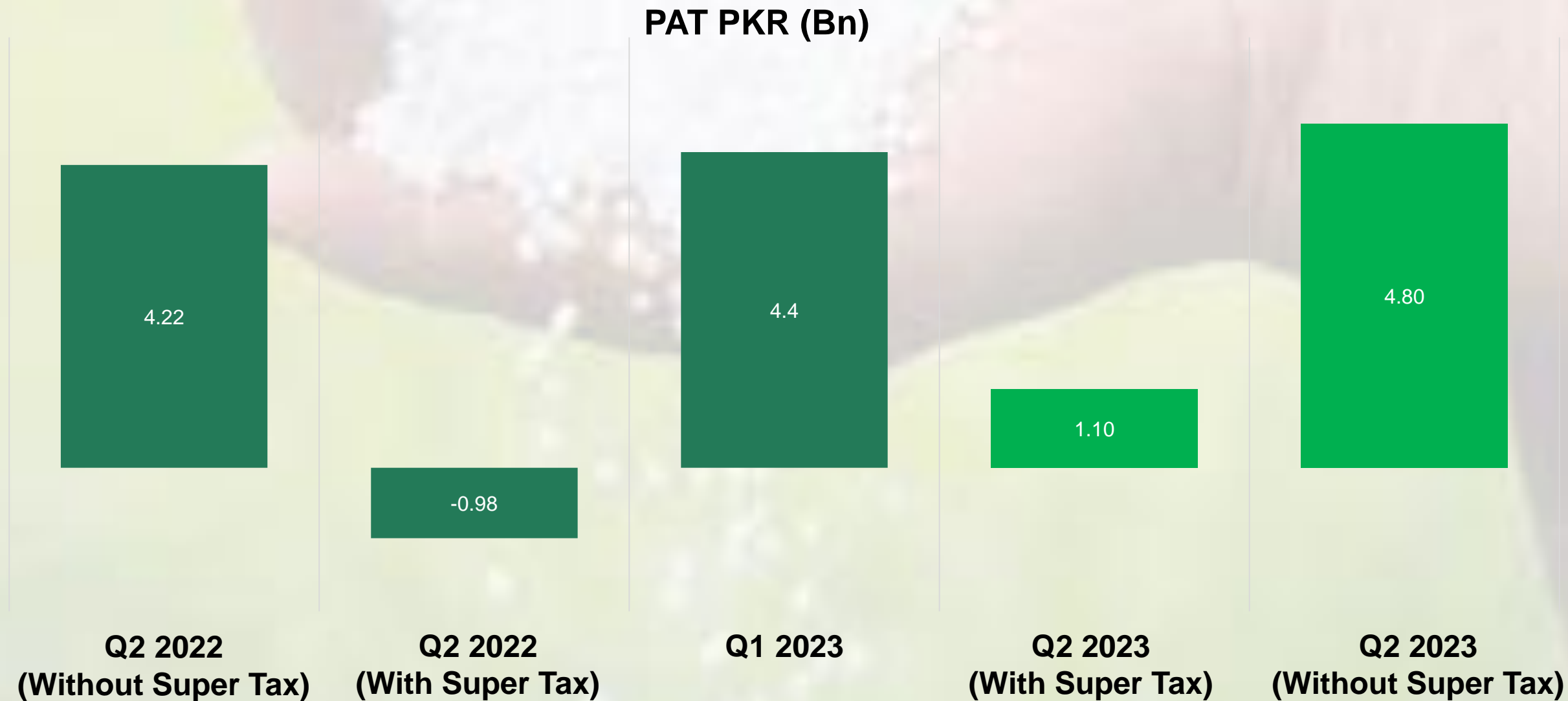
Half Yearly Profitability Analysis

EFERT has announced an interim dividend of **PKR 3.0/share** for **Q2 2023**.
 Cumulative **PKR 6.50/share** for **H1 2023** v/s the **PKR 5.50/share** in H1 2022.



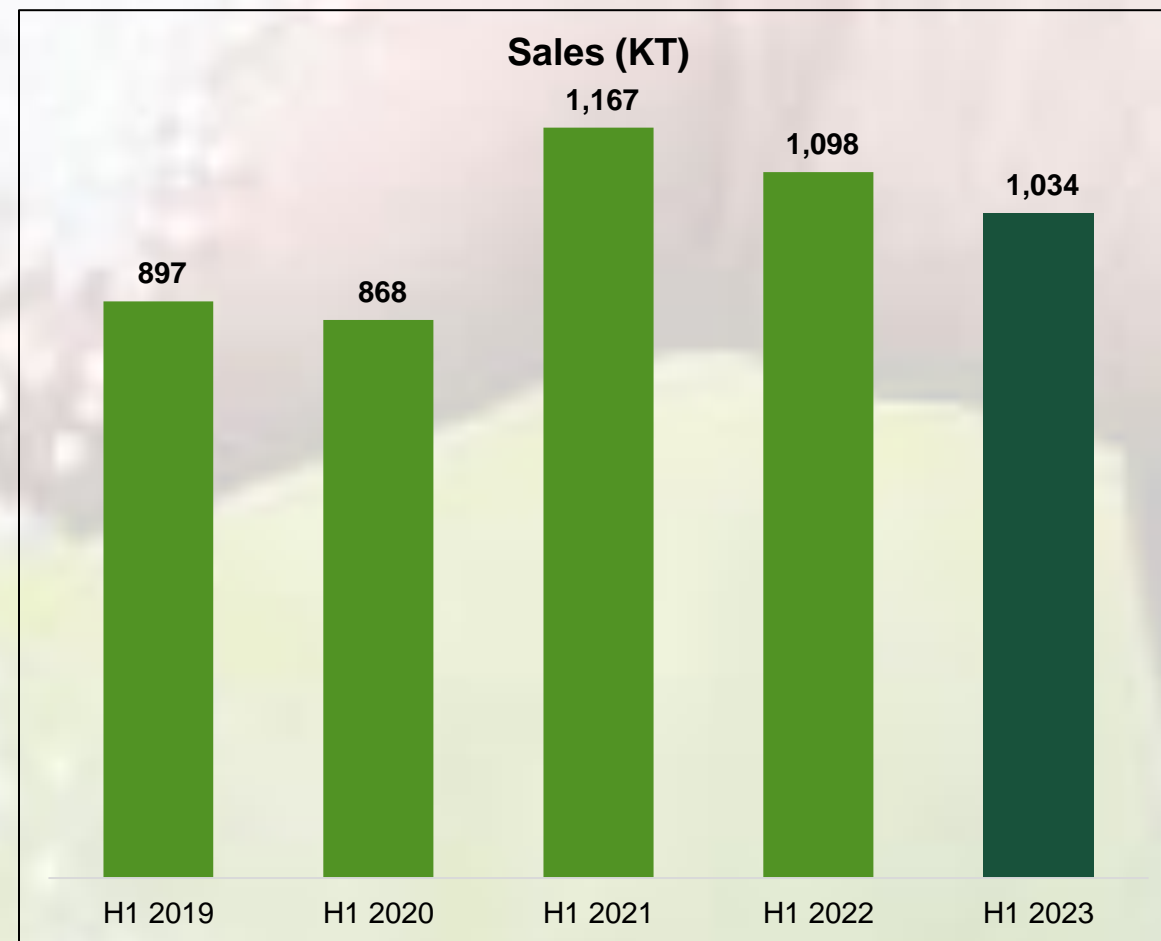
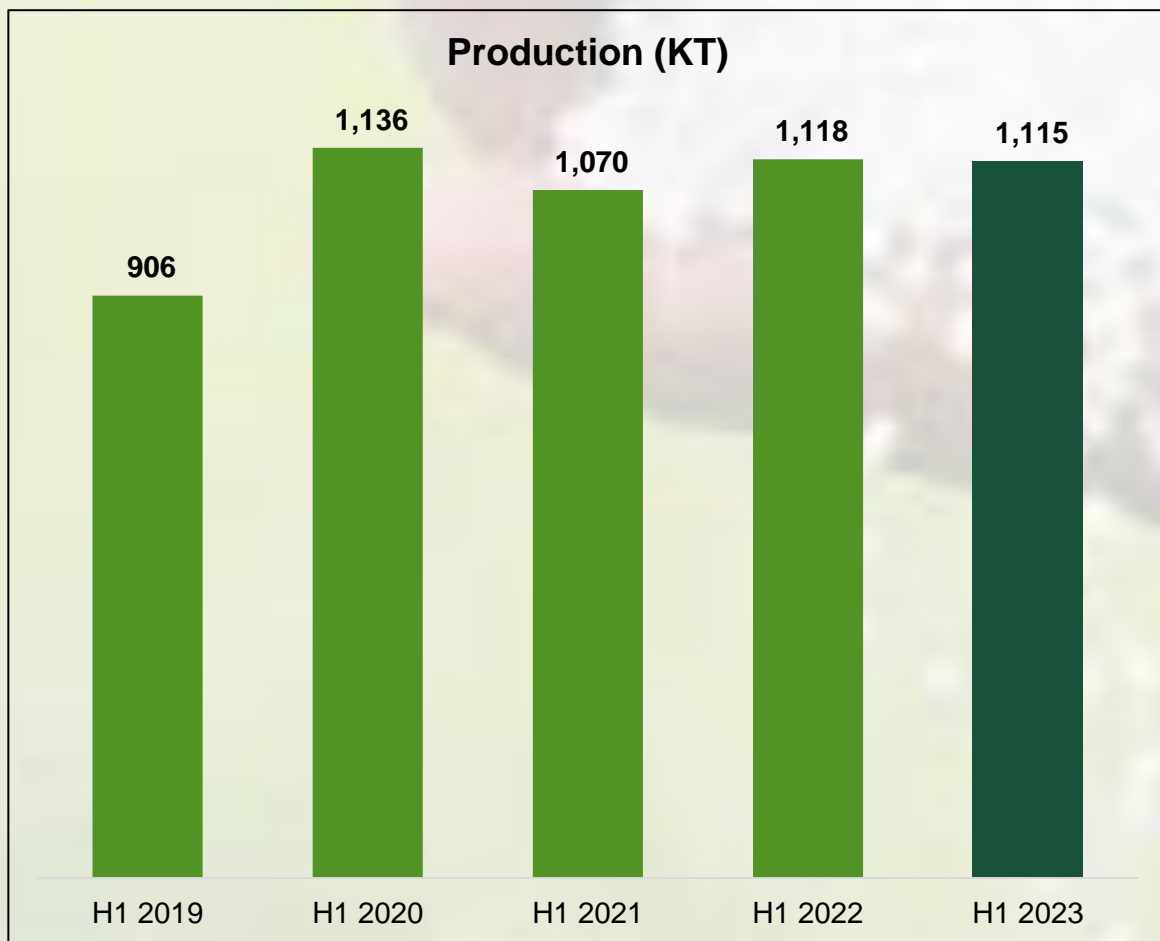


Our profitability through the quarters...





Engro Urea Production & Sales





Significant Updates



Finance Act 2023 Implications

1 Super Tax

- The Govt through Finance Act 2023 (Act) has amended Section 4C Super Tax and enhanced the Super Tax rate to 10% from the previous 4%.
- The rate is applicable on FY 2022 and onwards.

Description	PKR Bn
Prior Year Tax Charge – FY 2022 6%	1.4
Current Tax YTD June 2023 6%	0.9
Deferred Tax	1.5
Total	3.8

2 Federal Excise Duty

- Through the Act 5% FED was imposed on all Fertilizers.
- The prices of all the products have been changed to reflect the imposition of FED.

3 Sales Tax on DAP

- The Act has also imposed 5% GST on DAP, this is applicable on both local and imported DAP.
- The price of DAP has been changed to reflect the imposition of GST.



Urea price increase & other updates

PKR 175/bag
increase in
Urea price
(w.e.f. 1st July 2023)

- EFERT increased urea price by PKR 175/bag effective July 1st, 2023. (*PKR 150/bag for FED and PKR 25/bag dealer margin adjustment*).
- As part of the Finance Act 2023, FED was imposed on all Fertilizers at the rate of 5%.
- Consequently, EFERT has started levying FED on all products in line with the industry.

Base Plant
Outages

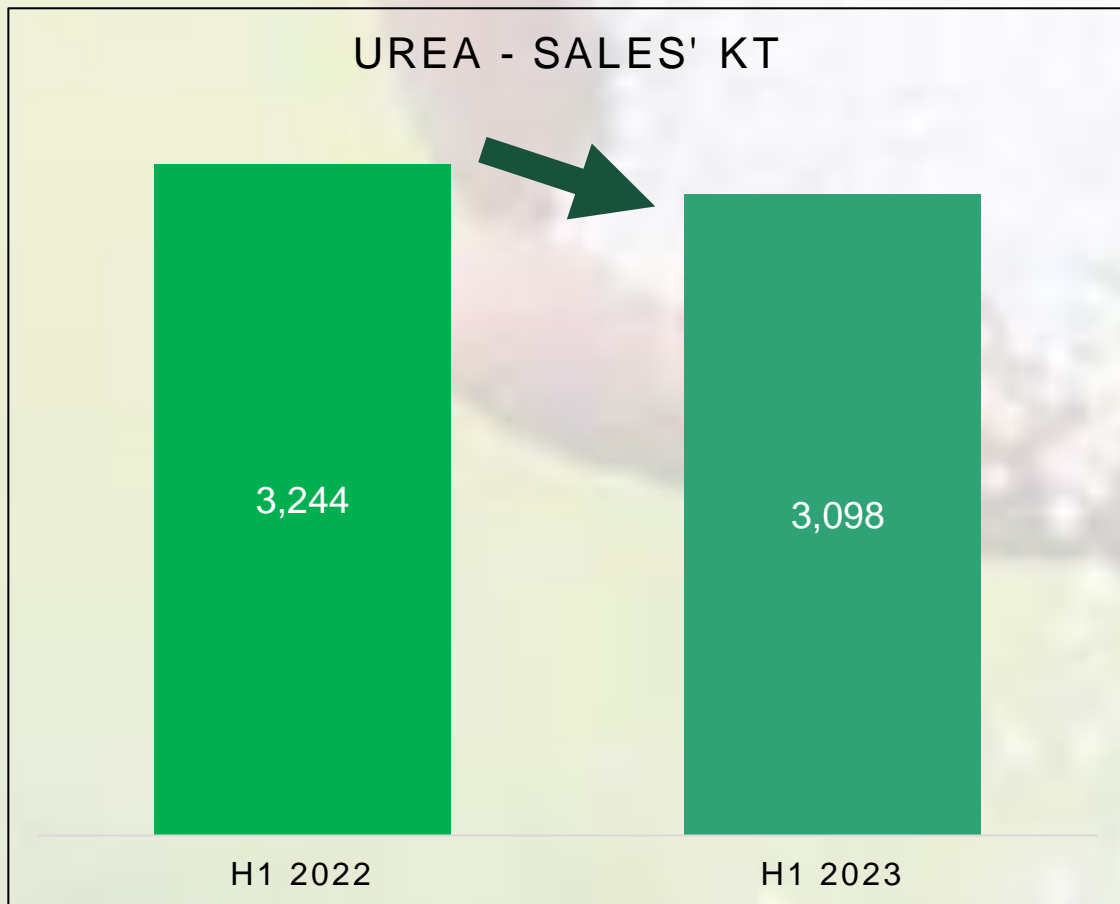
- During this quarter, the Base plant experienced a **~21-day outage** due to secondary reformer maintenance.



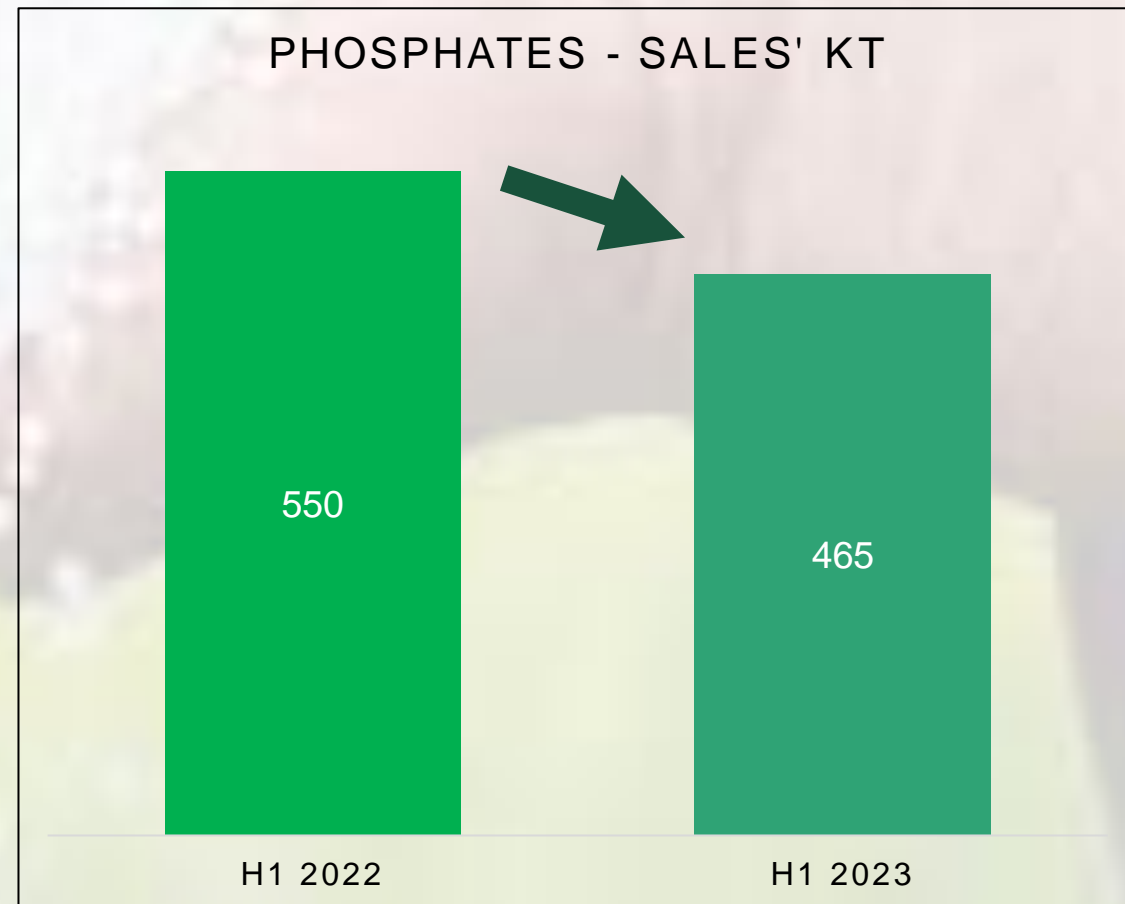
Industry & EFERT Business Performance



Urea & DAP Industry in H1 2023



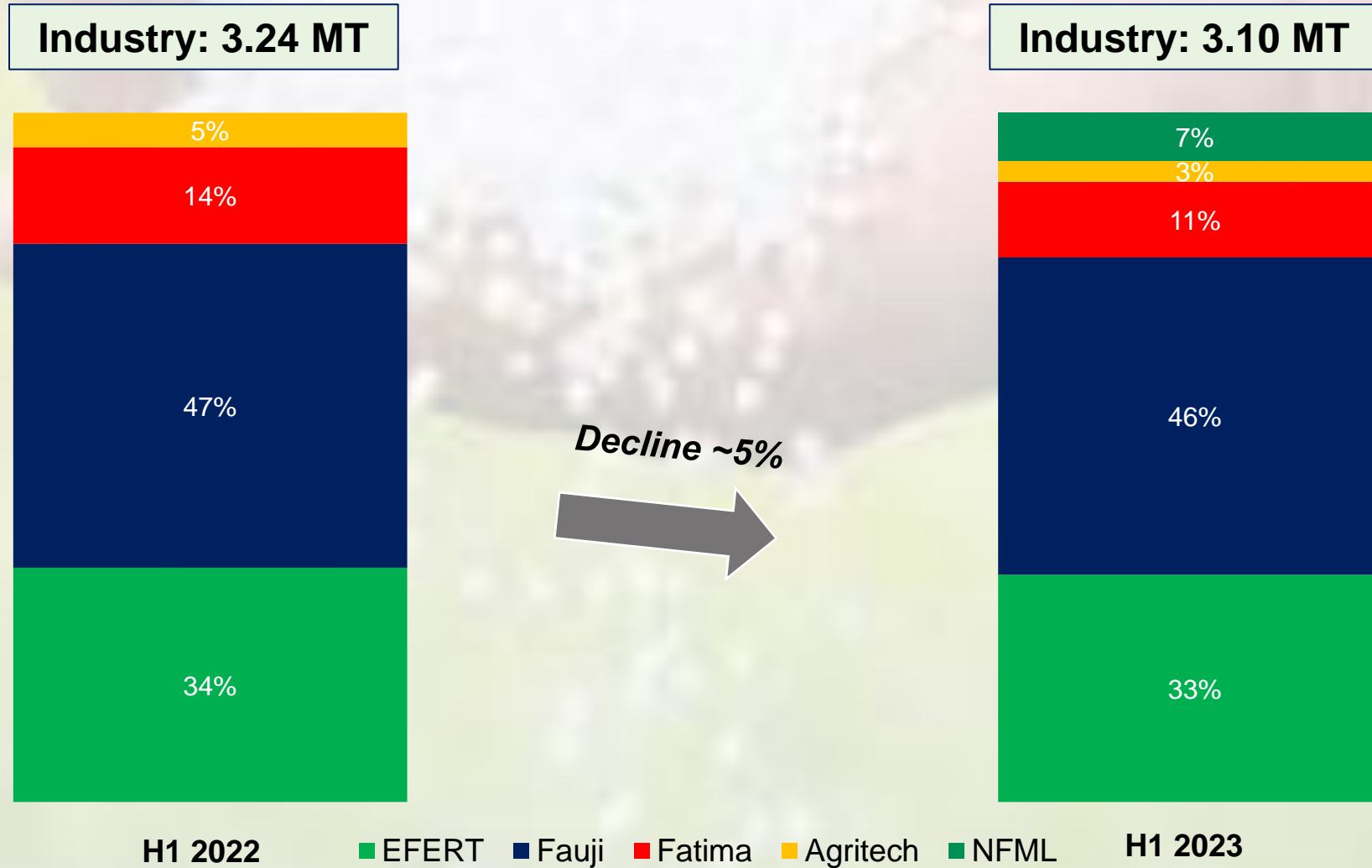
Urea industry has declined by ~5%



Phosphates industry has declined by ~15%.

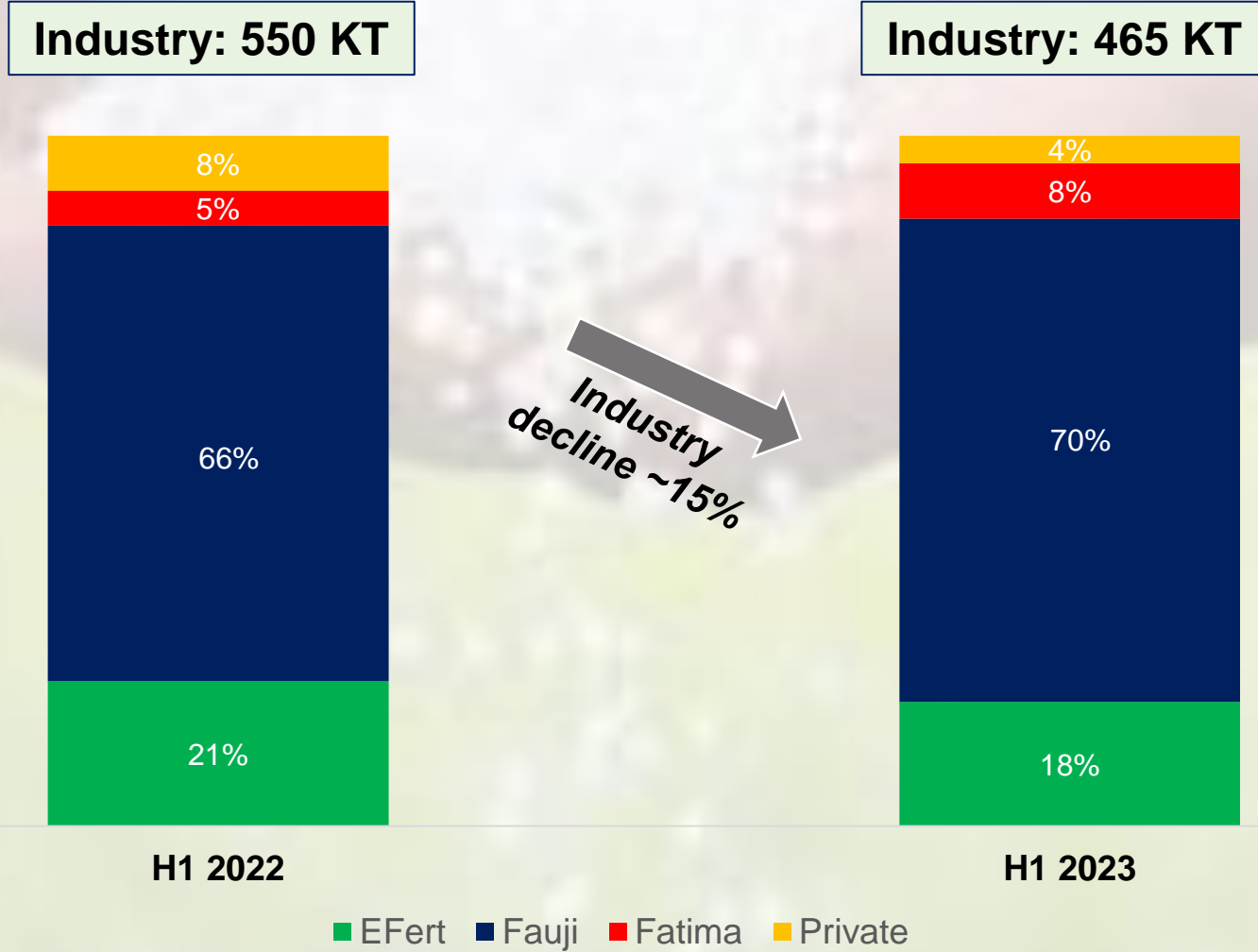


Industry & Market Share – Urea H1 2023





Industry & Market Share – Phosphates H1 2023





Support Required from Government



Support Required from Government

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 June 2023 whereas **EFERT's** share is **PKR 12.2 Bn.**

2 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 Jun 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

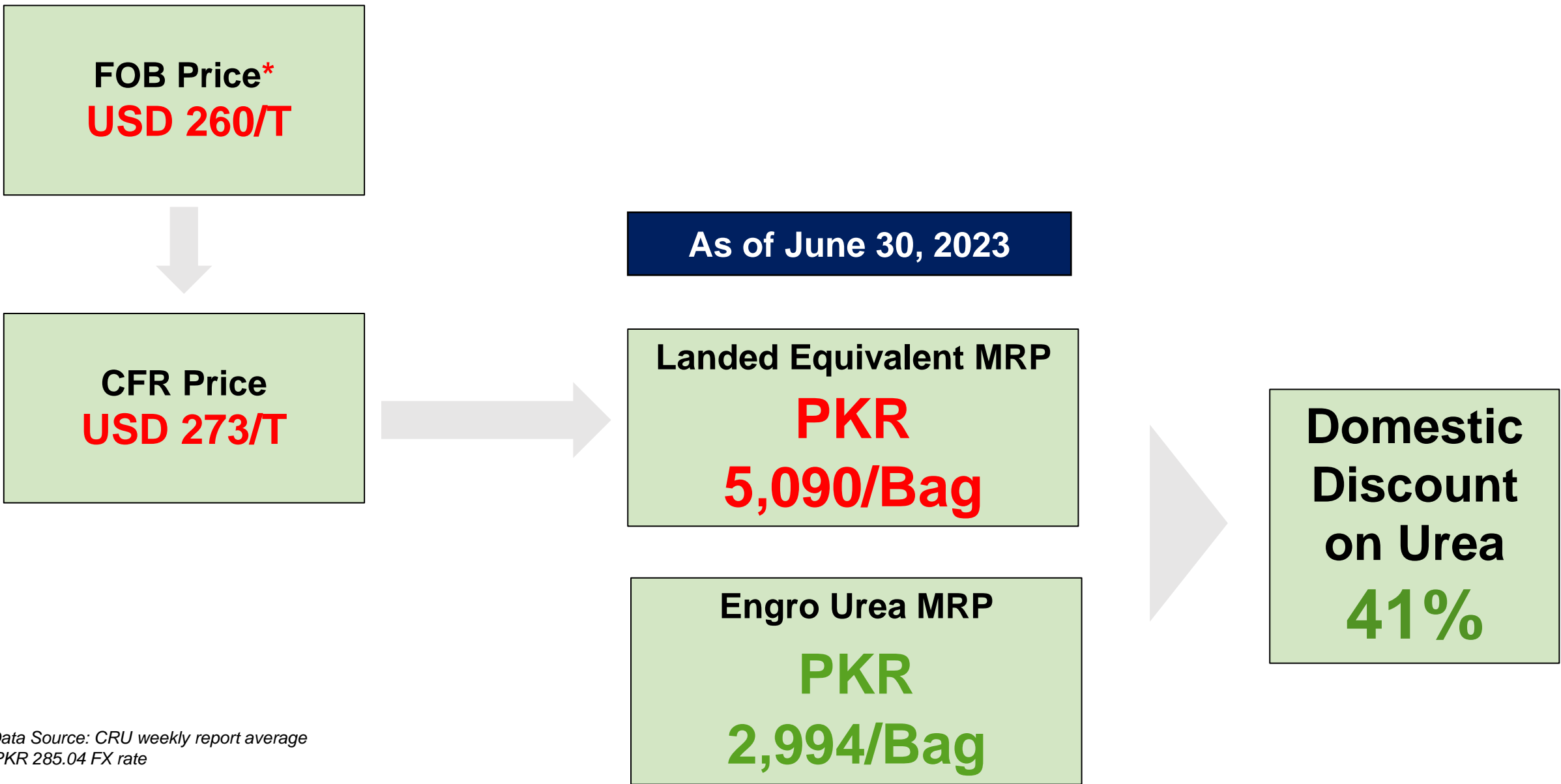


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Fertilizer Industry's contribution towards the Nation



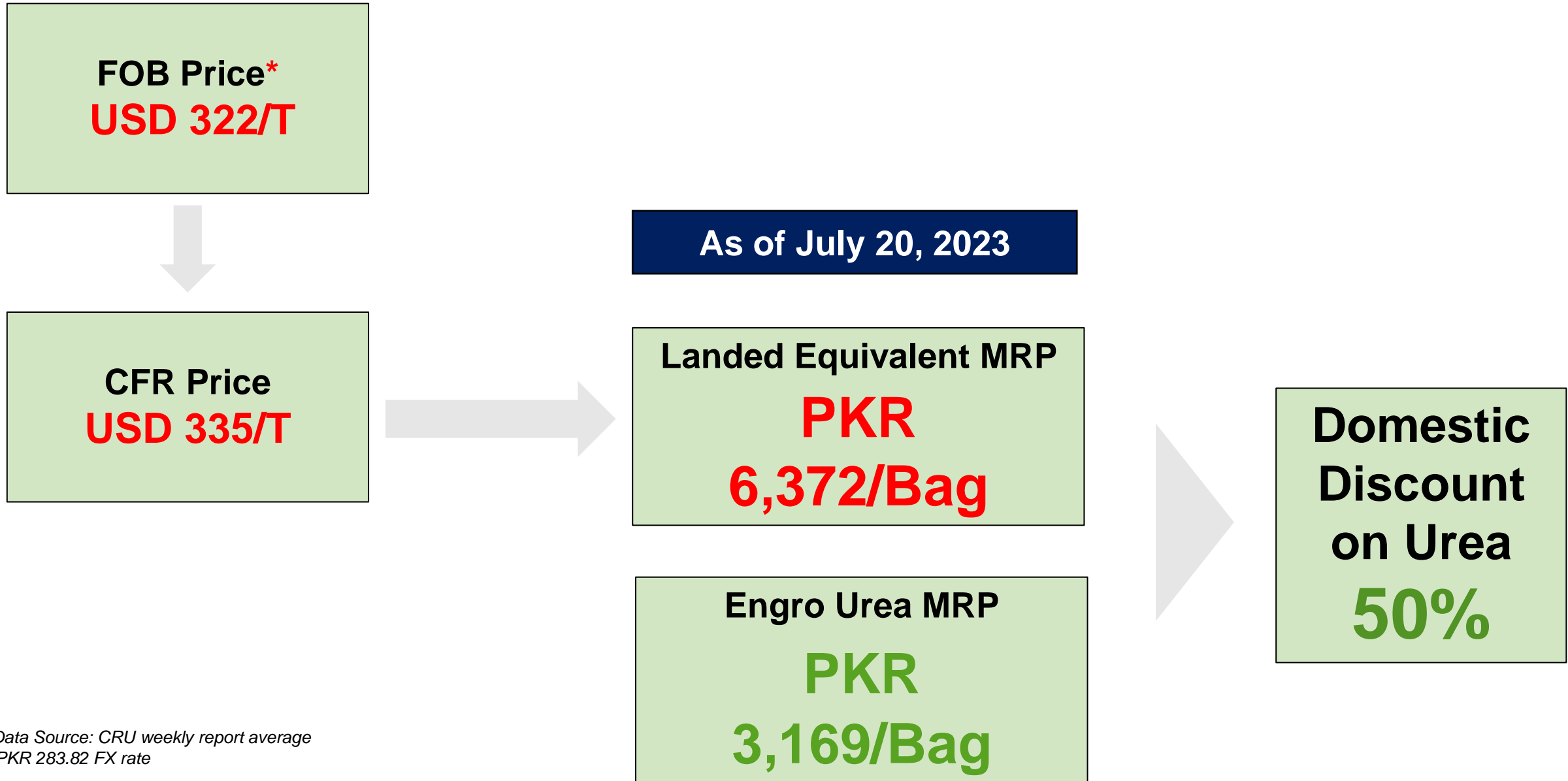
International Urea Prices at a Premium of 41%



*Data Source: CRU weekly report average
~PKR 285.04 FX rate



International Urea Prices at a Premium of 50% (Spot)



*Data Source: CRU weekly report average
~PKR 283.82 FX rate



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 – H1 2023 (PKR Bn)



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

Assumption: As per NFDC methodology, 25% incidentals plus other charges on CFR



Industry provides significant import substitution and benefit to farmers

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

~USD
2.2
Billion*

~USD 17/bag

Annualized benefit to domestic farmers based on Spot international prices

~PKR
420
Billion**

~PKR 3,203/bag

*International Spot price of USD 335/ton (CFR) assumed with expected local annual production of 6.6MT.

**Delta between international price & local urea prices as of July 20th, 2023, multiplied by expected annual production of 6.6MT.



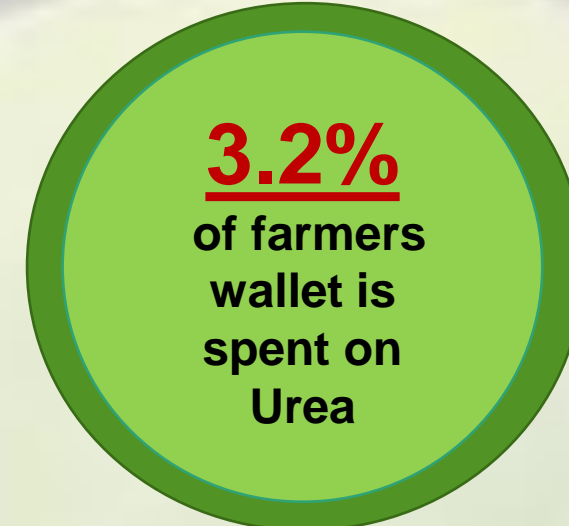
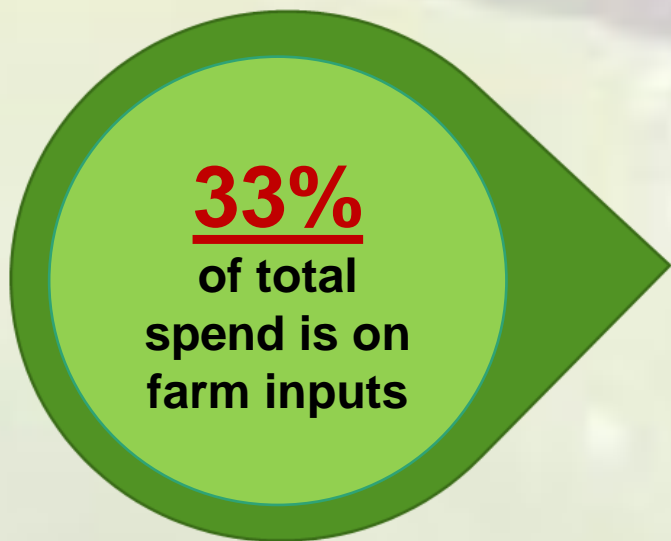
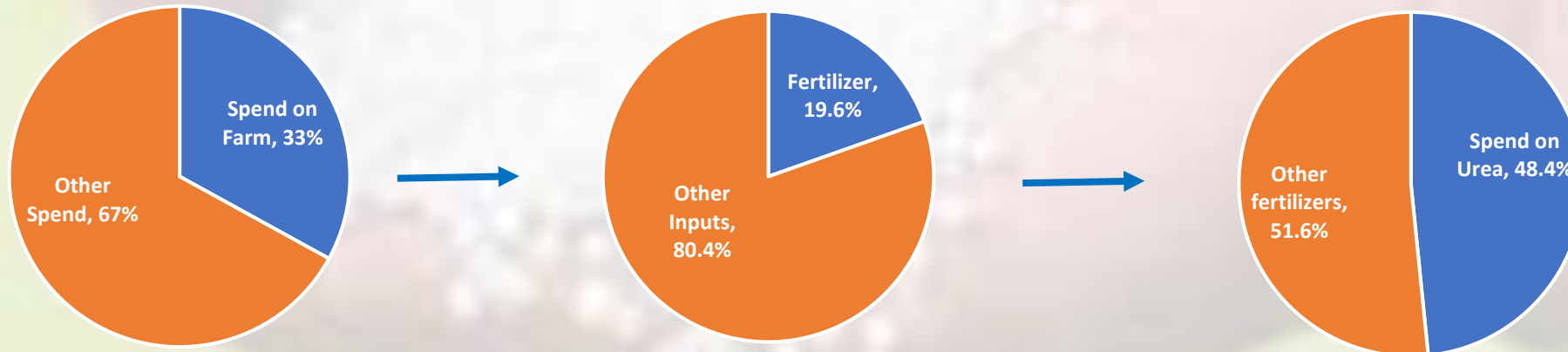
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Spend on Urea is a minor proportion
of the total farmer expense



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