



Fertilizers

Research Team

Saniya Tauseef | Senior Manager Research
Ayesha Wajih | Supervising Senior Research
Saba Farooq | Research Analyst

© The Pakistan Credit Rating Agency Limited.



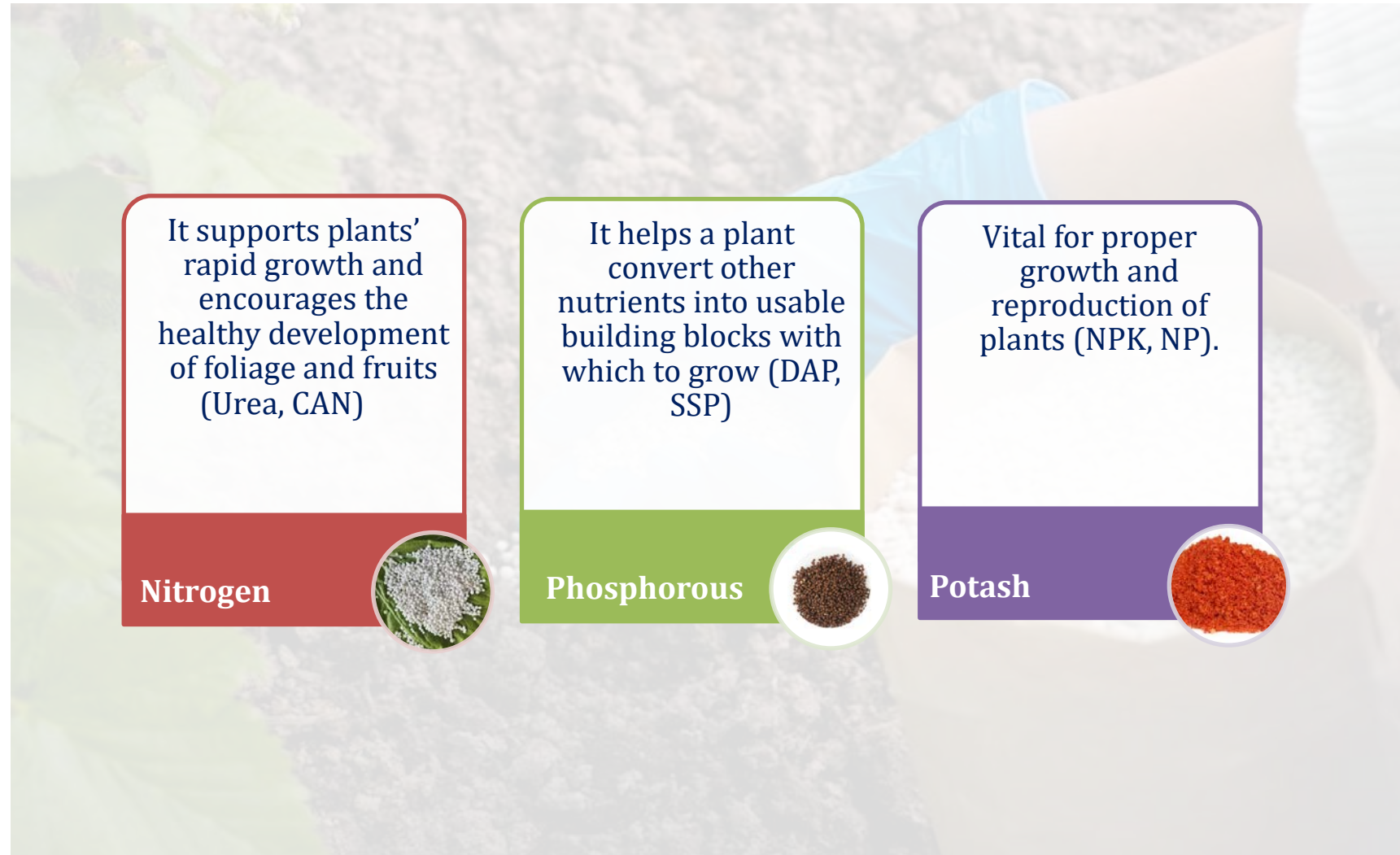
Fertilizers

Contents	Page No.	Contents	Page No.
Introduction	1	DAP Local Price Dynamics	17
Production Process	2	DAP Market Players	18
Usage By Crops Application	3	DAP Outlook	19
Local Introduction	4	Business Risk Overview	20
Local Overview	6	Business Risk GIDC	21
Local Fertilizer Position	7	Business Risk Price and Cost Structure	21
Local Market Shares	8	Business Risk Margins	23
Local Production Capacities	9	Financial Risk Working Capital Management	24
Local Urea Dynamics	10	Financial Risk Borrowing	25
Urea Global Price Dynamics	11	Duty Structure	26
Urea Local Price Dynamics	12	Rating Curve	27
Urea Market Players	13	Porters 5 Forces Model	28
Urea Outlook	14	SWOT Analysis	29
DAP Dynamics	15	Outlook	30
DAP Global Price Dynamics	16	Bibliography	31

Fertilizers

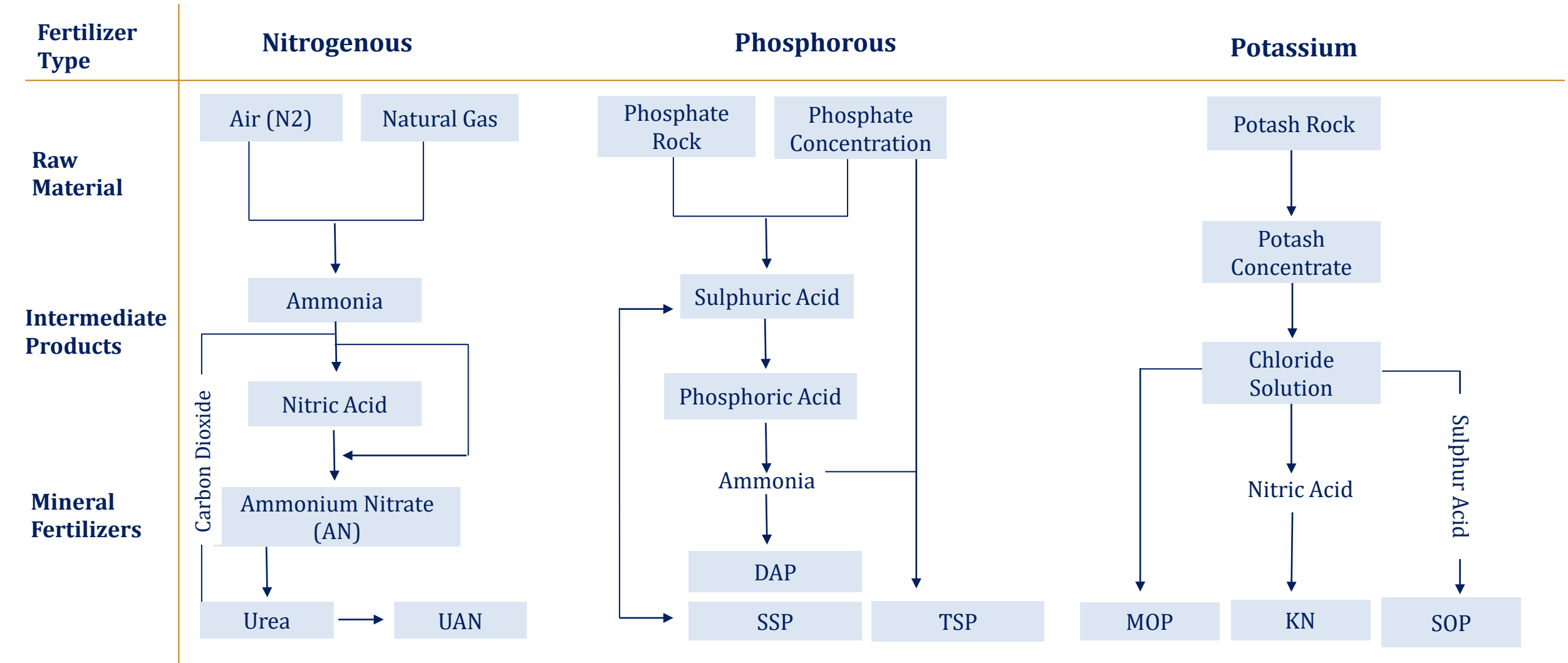
Introduction

- Fertilizers are nutrients essential for the growth of plants and crops.
- There are three main types of fertilizers used by the agricultural sector. These include nitrogenous fertilizers such as Urea and CAN, phosphorous fertilizer such as DAP and potassium fertilizers including NPK and NP.
- The most common type of fertilizers are nitrogenous fertilizers (mainly Urea) due to their vital properties and lower prices as compared to other types of fertilizers.



Fertilizers

Production Process



Fertilizers

Usage By Crops | Application

Wheat

- All phosphorus and potassium and half of the nitrogen is broadcast and incorporated in the soil before sowing.
- Phosphorus can be applied at the first irrigation if this was not done at sowing.

Rice

- Application of zinc sulphate (35 percent Zn) at the rate of 12.5 kg/ha after 7-10 days of transplanting.
- Nitrogen fertilizers containing nitrogen in ammoniacal form (urea, ammonium sulphate) are more beneficial for rice.

Cotton

- All P_2O_5 , K_2O and 1/3 of the N should be applied at sowing by band placement.
- Then 1/3 of the N should be applied with the first irrigation and the remaining 1/3 of the N at the pre-flowering stage.

Sugarcane

- All phosphorus, potassium and 1/3 of the N should be applied at planting time in the furrows below the seed sets. Fertilizer contact with the seed sets has to be avoided.
- The remaining 2/3 of the N should be applied in two splits, i.e. 1/3 in April and 1/3 in May.

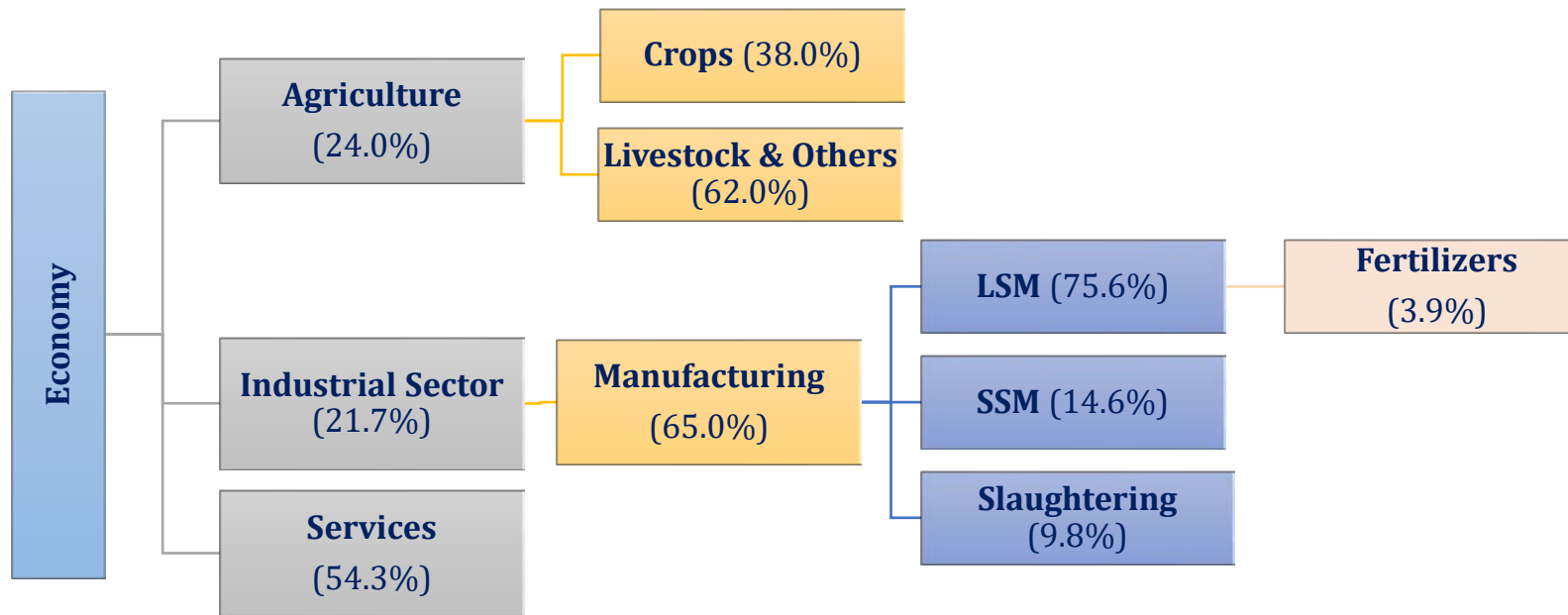
Maize

- In medium soils for OPV's 87 Kg Nitrogen 46 Kg Phosphorus and 37 Kg Potash per acre.
- For hybrid soil 110 Kg Nitrogen, 58 Kg Phosphorus and 37 Kg Potash per acre is required for successful growing of maize crop.

Fertilizers

Local | Introduction

- In FY23, Pakistan's GDP (nominal) stood at PKR~79.7trn (FY22: PKR~63.3trn), contracting, in real terms, by ~0.17% YoY (FY22: ~6.3% growth). Industrial activities in FY23 held ~22% share in the GDP while the manufacturing activities made up ~65% of the value addition. In 1QFY24, Pakistan's GDP (nominal) stood at PKR~22.6trn (1QFY23: PKR~18.4trn), rising in real terms by ~2.13% (1QFY23: ~0.96%).
- Large Scale Manufacturing (LSM) in Pakistan is essential for the economic growth considering its linkages with other sectors, as it represented ~75% value of all manufacturing activities in FY23. The LSM fell by ~10.3% in FY23 (FY22: ~11.7%) and further declined by ~0.80% YoY in 5MFY24 period.
- The Fertilizers sector is classified as a Large Scale Manufacturing (LSM) industrial component within the industrial sector. In FY23, the Fertilizers sector's weight in the QIM was recorded at ~3.9%. The Fertilizers sector in LSM experienced a growth of ~11.2% in 5MFY24, primarily driven by an uptick in Nitrogenous Fertilizers.



Fertilizers

Local | Overview

Production Important Crops							
Crops	Units	FY18	FY19	FY20	FY21	FY22	FY23
Cotton	000 bales	11,946	9,861	9,178	7,064	8,329	4,910
Growth	%	11.9%	-17.5%	-6.9%	-23.0%	17.9%	-41.0%
Sugarcane	000 MT	83,333	67,174	66,880	81,009	88,651	91,111
Growth	%	10.4%	-19.4%	-0.4%	21.1%	9.4%	2.7%
Rice	000 MT	7,450	7,202	7,414	8,420	9,323	7,322
Growth	%	8.8%	-3.3%	2.9%	13.6%	10.7%	-21.4%
Maize	000 MT	5,902	6,826	7,236	8,465	10,635	10,183
Growth	%	-3.8%	15.7%	6.0%	17.0%	25.6%	-4.2%
Wheat	000 MT	25,076	24,349	24,946	27,293	26,394	27,634
Growth	%	-6.0%	-2.9%	2.5%	9.4%	-3.3%	4.7%

- The crop targets for FY24 offer a strategic outlook on the upcoming fertilizers demand. For the upcoming crop year of FY24, production targets stand at ~12.8mln bales for Cotton, ~78.6mln MT for Sugarcane, ~9.0mln MT for Rice, ~10.3mln MT for Maize, and ~28.0mln MT for Wheat.

Fertilizers

Local | Overview

- Fertilizers are an essential contributing input towards the agriculture sector of the country. The sector’s economic significance is high as it plays a vital role in ensuring food security across the country.
- Moreover, it contributes ~3.9% to the Large-scale Manufacturing (LSM) sector and ~0.8% to the overall GDP of the country.
- Crop outputs, credit disbursement of agricultural sector, government policies, weather conditions and soil health are a few of the main drivers of demand for the fertilizers sector.
- The sector is dominated by five big players which occupy ~95% of the market in terms of sales. This makes the sector oligopolistic in nature. All five players are listed on the Pakistan Stock Exchange (PSX) and belong to the Fauji, Engro, Fatima and Agritech Groups.
- The two main fertilizers by production and offtake are Urea and DAP. On the other hand, Pakistan has one local DAP manufacturer (FFBL, covered later) and the country, resultantly, imports DAP to meet demand.

Industry Snapshot	CY22	CY23
Revenue (PKR bln)*	505	720
Growth in Revenue (%)	17%	43%
Contribution to GDP (%)	0.8%	0.8%
Sector Players	6	5
Structure	Oligopoly	
Fertilizer Production (mln MT)	9.01	8.84
Fertilizer Offtake (mln MT)	9.26	10.13
Fertilizer Closing Stock (mln MT)	1.39	0.68
Fertilizer Imports (mln MT)	0.87	0.58
Regulator	MNFSR (Ministry of National Food Security & Research)	
Associations	FMPAC (Fertilizer Manufacturers of Pakistan Advisory Council) NFDC (National Fertilizer Development Centre)	

*CY23 Data is prorated on the basis of available data of 9MCY23. Moreover, Pak Arab was merged with FATIMA in Dec’22, bringing the total number of sector players to 5 in CY23.

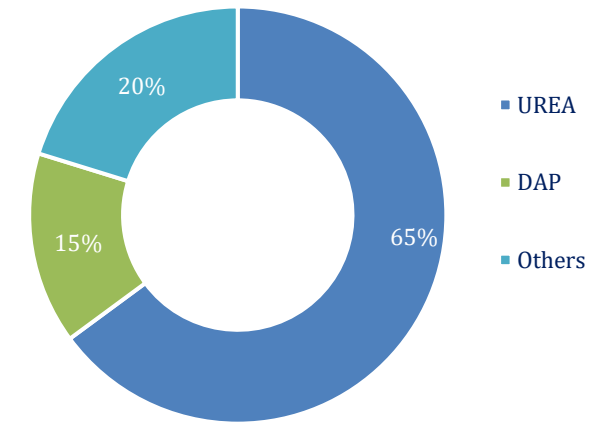
Fertilizers

Local Fertilizer Position

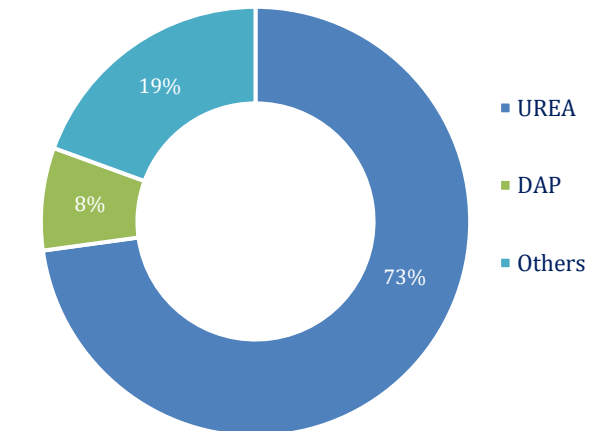


- Average annual fertilizers production of the country during CY19-23 stands at ~8.7mln MT, while average offtake levels hover around ~10.0mln MT.
- For CY22, the country's annual offtake dropped by ~10.0% YoY owing to the flashfloods of Jul-Aug'22. On the flip side, production levels were up ~3.5%YoY.
- Closing stocks as at End-Dec'22, therefore, increased to ~1.4mln MT, resulting in lower production levels in CY23, despite an uptick in offtake by ~9.5% in CY23.

Offtake share | Product-Wise | CY23



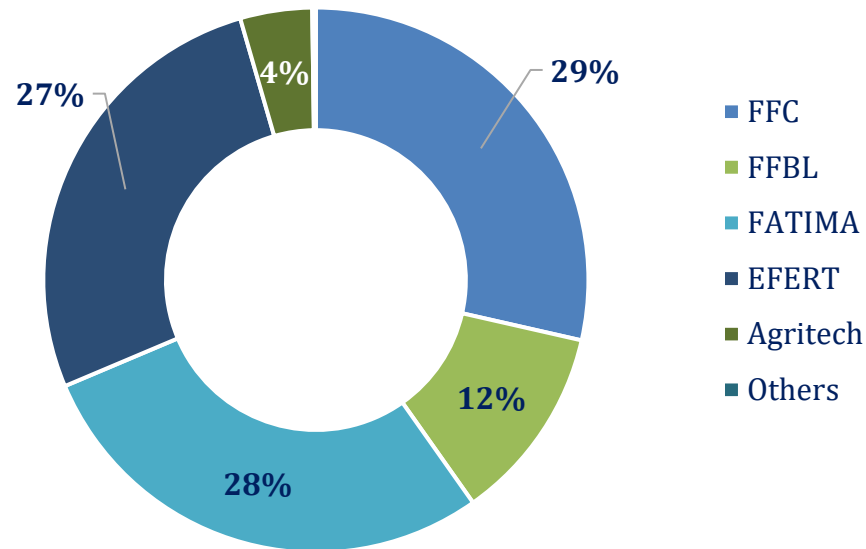
Production Share | Product-Wise | CY23



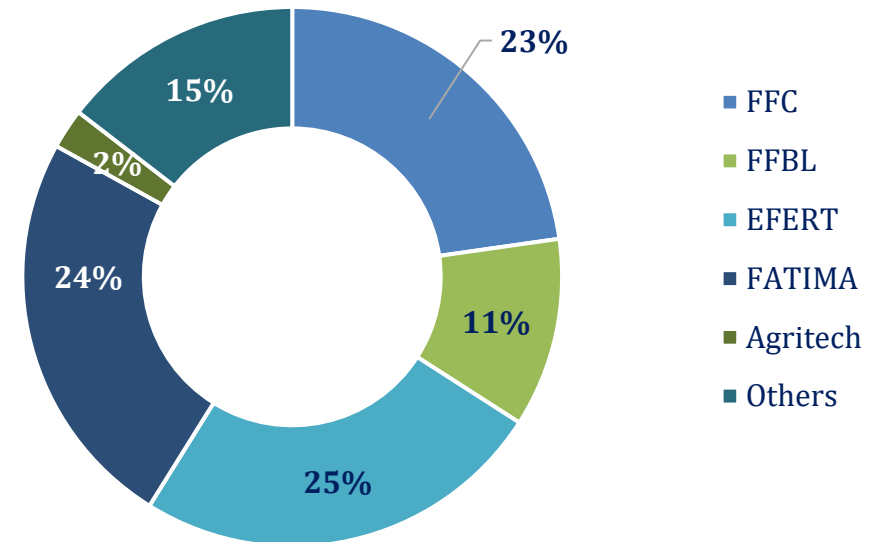
Fertilizers

Local | Market Shares

Market Share | Production-Wise | CY23



Market Share | Offtake Wise | CY23



- In CY23, the Fauji Group held a substantial share in both the production and offtake levels, constituting ~41% and ~34% of the overall market share, respectively.
- In CY22, Engro, FATIMA, FFC, FFBL, and Agritech had contributed ~22.8%, ~31.5%, ~26.2%, ~15.0%, and ~4.5%, respectively, to the overall production of the fertilizers in the country.

Fertilizers

Local | Production Capacities (CY22)

All figures in '000' MT

Group	Company Name	Nitrogenous						Phosphorous		Potash		Player-wise Capacity	Player-wise Production
		Urea Capacity	Utalization (%)	NP Capacity	Utalization (%)	CAN Capacity	Utalization (%)	DAP Capacity	Utalization (%)	NPK/NK Capacity	Utalization (%)		
Fauji	Fauji Fertilizer (FFC)	2,048	117.4%	-	-	-	-	-	-	-	-	2,048	2,404
	Fauji Fertilizer Bin Qasim (FFBL)	551	95.0%	-	-	-	-	650	130.4%	-	-	1,201	1,371
ENGRO	Engro Fertilizers Limited (EFERT)	2,275	85.9%	-	-	-	-	-	-	100	137.0%	2,375	2,092
FATIMA	Fatima Fertilizer Company Ltd.	1,038	105.5%	665	130.3%	870	99.6%	-	-	-	-	2,573	2,828
Agritech Limited		433	81.6%	-	-	-	-	81	78.5%	-	-	514	417
Total Capacity		6,345	-	665	-	870	-	731	-	100	-	8,711	9,113
Total Production/ Average Utilization		6,331	99.8%	867	130.3%	867	99.6%	911	124.7%	137	137.0%	104.6%	

Fertilizers

Local | Urea Dynamics

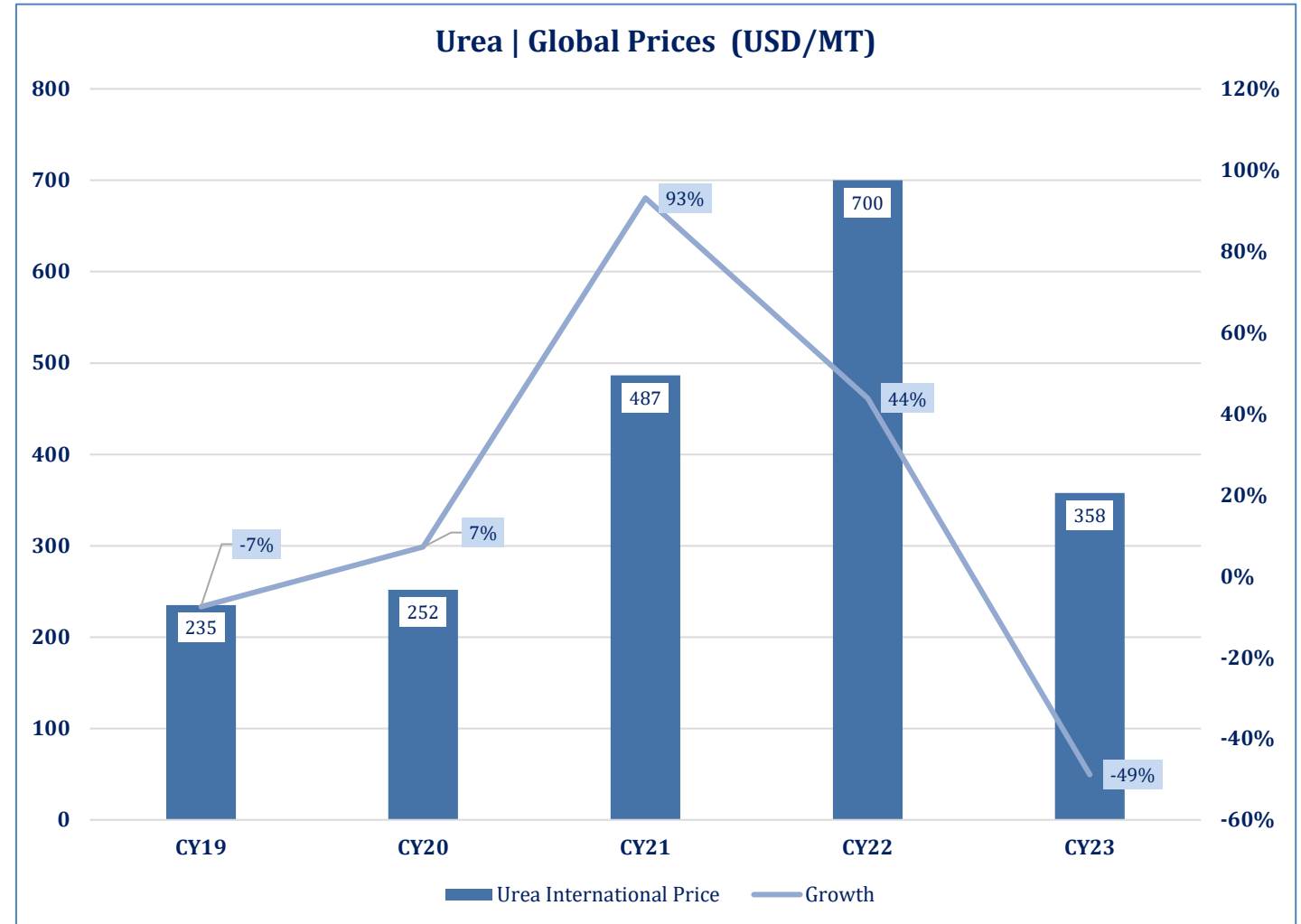
- Average annual urea production of the country during CY19-23 stood at ~6.2mln MT, while average offtake levels hovered around ~6.3mln MT. Demand for Urea spans equally both the Kharif (Apr-Sep) as well as Rabi (Oct-Mar) seasons.
- Despite the country being self-sufficient in Urea production, this demand-supply gap arises due to gas supply disruptions seeing as indigenous gas is a major input in fertilizer production. Therefore, imported urea makes up for the shortfall. These stood at of ~0.5mln MT as of End-Dec'23. Moreover, Fatima Fertilizer and Agritech plants, operated on imported RLNG, usually come online during the Rabi season due to gas curtailments in the winter season.
- As of End-Dec'23, closing urea inventory was recorded at ~0.2mln MT, below the historical average of ~0.3mln MT (CY19-23). To meet the demand during the ongoing Rabi season (Oct-Mar'24), import forecast stands at ~0.2mln MT due to reasons stated above.

Urea Annual Position (000 MT)					
Particulars	CY19	CY20	CY21	CY22	CY23
Opening Inventory	199	204	389	188	319
Production	6,113	6,135	6,141	6,331	6,433
Imports	0	0	0	306	48
Supply	6,312	6,339	6,530	6,825	6,800
<i>Less:</i>					
Sales	6,109	5,950	6,343	6,505	6,576
Exports	0	0	0	0	0
Closing Inventory	204	389	188	319	224

Fertilizers

Urea | Global Price Dynamics

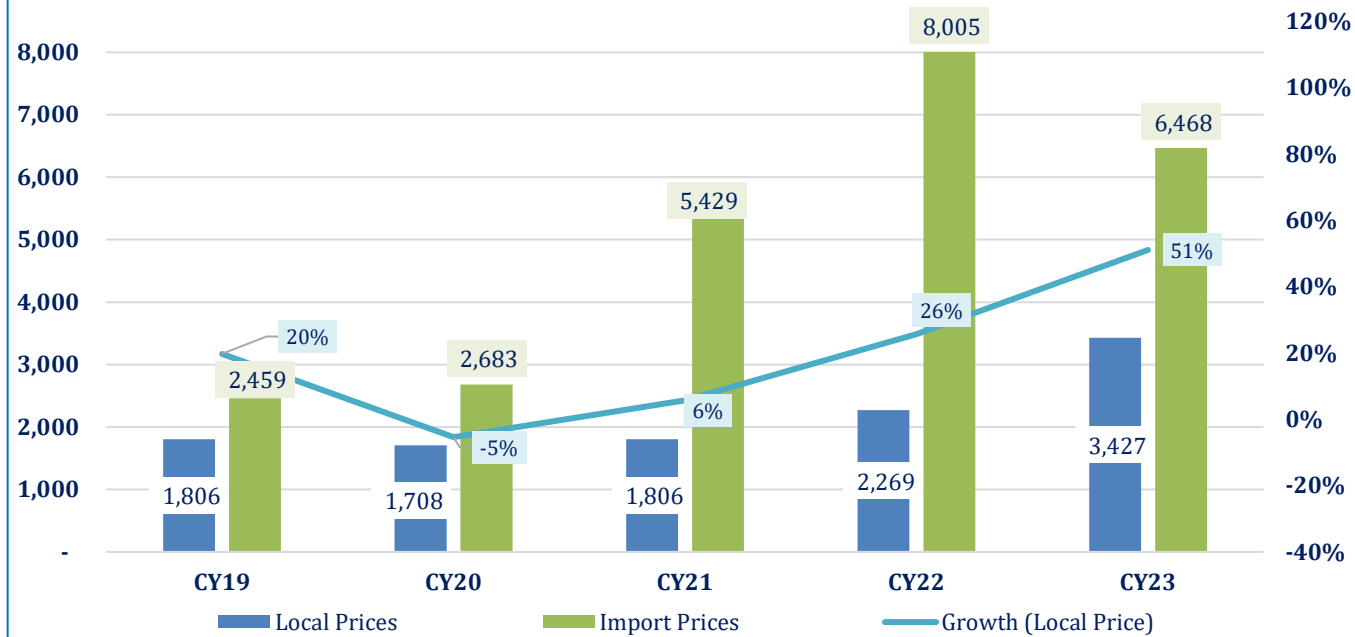
- Average international prices of urea were recorded at USD~406/MT during CY19-23, with a decrease of ~48.9% in CY23. During CY22, much of the exorbitant increase in the international price of urea was associated with the uncertainty and trade disruptions stemming from the Russia-Ukraine conflict.
- Raw material prices of commodities like natural gas, ammonia and potash declined in CY23 as economies resorted to new sources of raw materials. Prices of natural gas and potash were down ~60.1% and ~55.6%, respectively, in CY23.
- In response to sanctions placed on Russian exports, Canada increased exports of Potash to fill the supply gap. Going forward, if Russia manages to ease its trade restrictions, urea prices will likely go down further in CY24, which would further improve the global supply situation of the fertilizers sector.



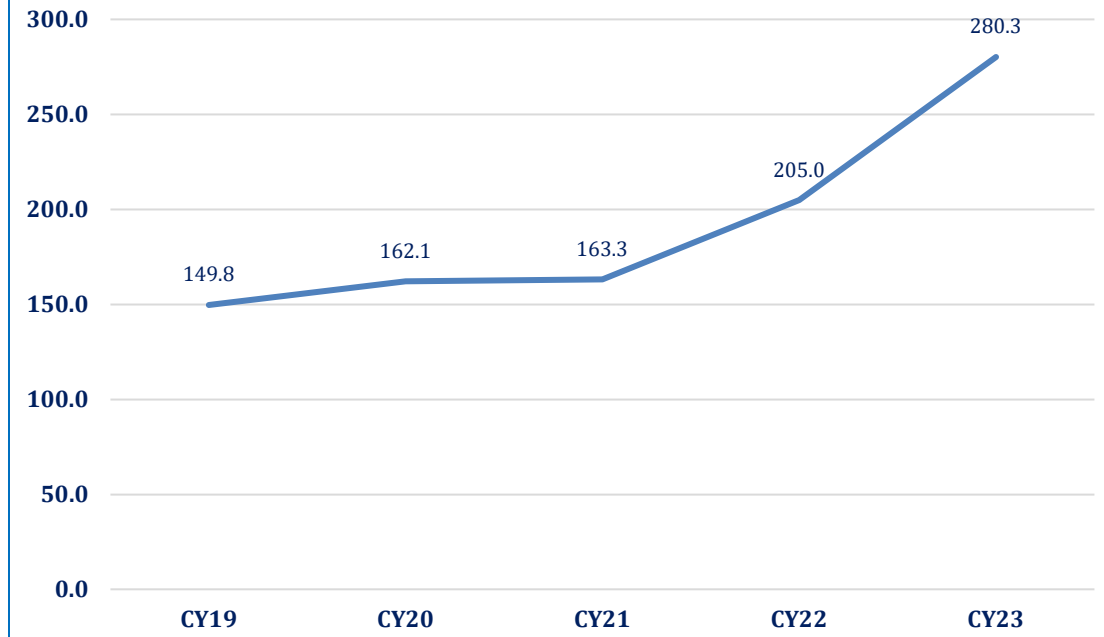
Fertilizers

Urea | Local Price Dynamics

Urea | Local vs. Import Price (PKR/50Kg Bag)



Exchange Rate (USD/PKR) | Yearly Average

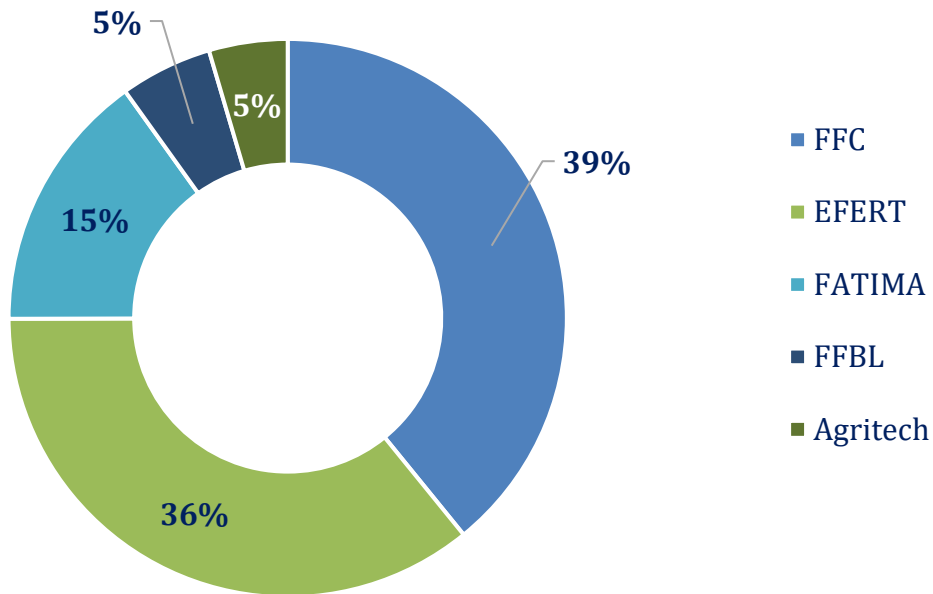


- Local urea prices, on average, hovered around PKR~2,203/50Kg during CY19-23, with an increase of ~51.0% YoY in CY23. Rising input and energy costs contributed to the increase in domestic urea prices.
- The average delta between international and local urea prices recorded at ~52.9% in CY23 (CY22: ~72.0%). This delta maintained a historical average of ~53.9% from CY18-22.
- The price of imported urea clocked in at PKR~6,468/50Kg in CY23, with a YoY decline of ~19.2%. The trend of imported urea price follows the pattern of International prices, therefore, despite a ~36.7% PKR depreciation in CY23, price of imported urea declined due to lower international input commodity prices.

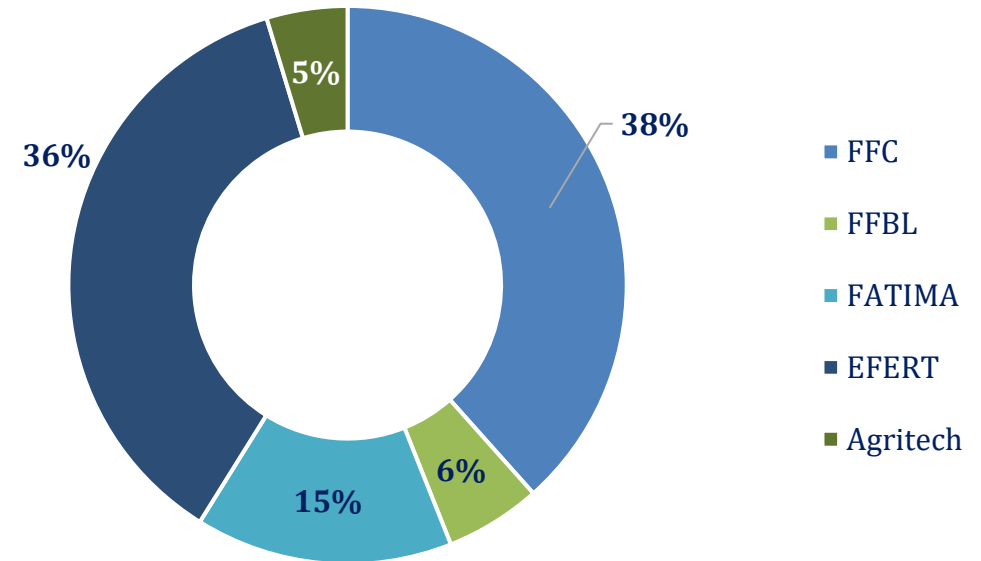
Fertilizers

Urea | Market Players

Market Share | Production-Wise | CY23



Market Share | Offtake Wise | CY23



- In CY23, the collective share of Fauji Group (FFC + FFBL) in urea production was around ~44% (SPLY: ~41.2%) while in terms of offtake, it hovered around ~44% of the total market share.
- In CY22, FFC led the urea market with ~38% of the country's urea production, followed by EFFERT (~31%) and Fatima (~17%), while FFBL and Agritech held smaller shares at ~8% and ~6% respectively.

Fertilizers

Urea | Outlook

- During the Kharif season (Apr-Sep'23), urea production was recorded at ~3.3mln MT which was sufficient to meet the local demand levels of ~3.3mln MT for the season. During the ongoing Rabi season (Oct'23-Mar'24), the local production of urea apparently seems to register short of the country's demand for the Rabi season. Accordingly, as of End-Dec'23, ~48,000 MT of urea has been imported, whereas further imports are expected in Jan'24.

Urea Position (000 MT)	Actual	Estimated			Rabi (Oct-Mar)
	Oct-Dec'23	Jan'24	Feb'24	Mar'24	CY23-24*
Opening Stock	77	104	56	99	77
Imports	48	172	0	0	220
Production	1,676	566	507	539	3,288
Supply	1,801	842	563	638	3,585
Offtake	1,697	786	464	388	3,335
Closing Inventory	104	56	99	250	250

*Rabi season 2023-2024 data is estimated by NFDC.

Fertilizers

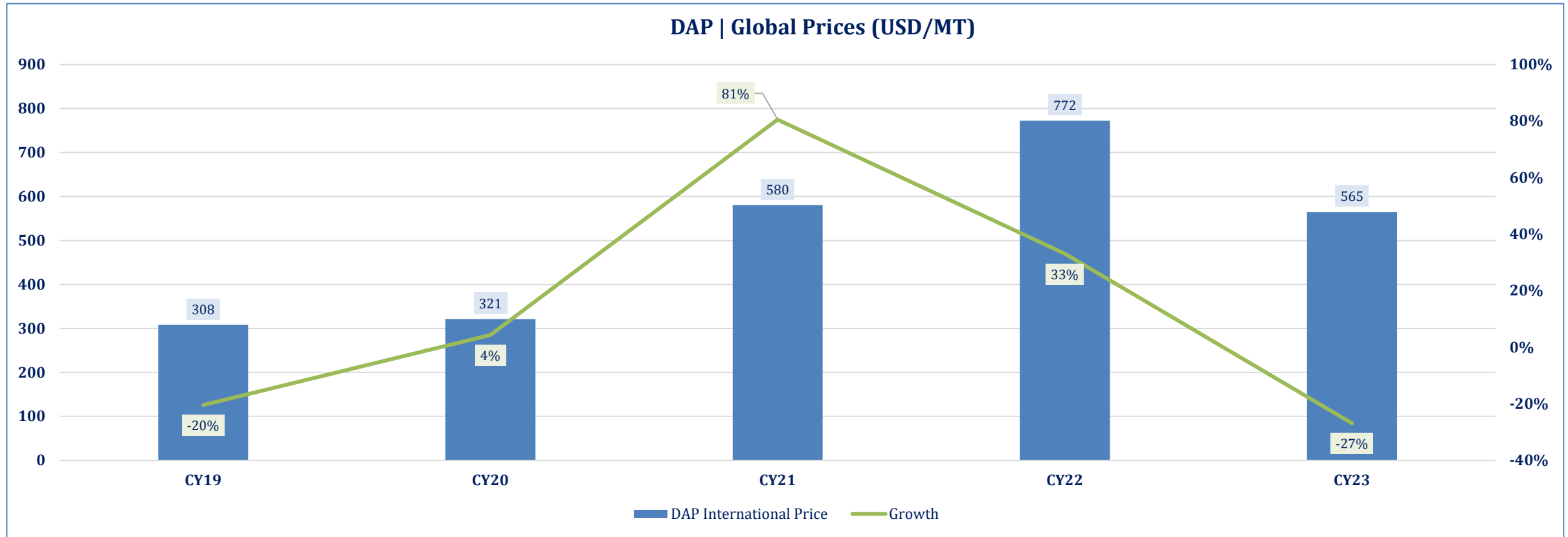
DAP | Dynamics

- Average DAP fertilizer availability during CY19-23 stood at ~2.0mln MT with a decrease of ~17.2% in CY23, while average offtake levels hovered around ~1.7mln MT during the same period.
- In CY23, annual DAP production and imports declined by ~19.7% and ~27.8% YoY, respectively, owing to gas curtailments during the year which led to lower production of the major producer of DAP (FFBL).
- Imports fell to ~0.5mln MT in CY23, significantly lower than the four-year average of ~1.1mln MT (CY19-22) a decrease of ~56.0%. Reduced demand, driven by affordability and availability gives rise to the concerns among farmers.

DAP Annual Position ('000' MT)					
Particulars	CY19	CY20	CY21	CY22	CY23
Opening Inventory	167	492	135	192	494
Production	813	740	790	850	683
Imports	1,512	1,016	1,174	665	480
Supply	2,492	2,249	2,099	1,707	1,656
Less:					
Offtake	2,000	2,114	1,907	1,213	1,508
Closing Inventory	492	135	192	494	149

Fertilizers

DAP | Global Price Dynamics

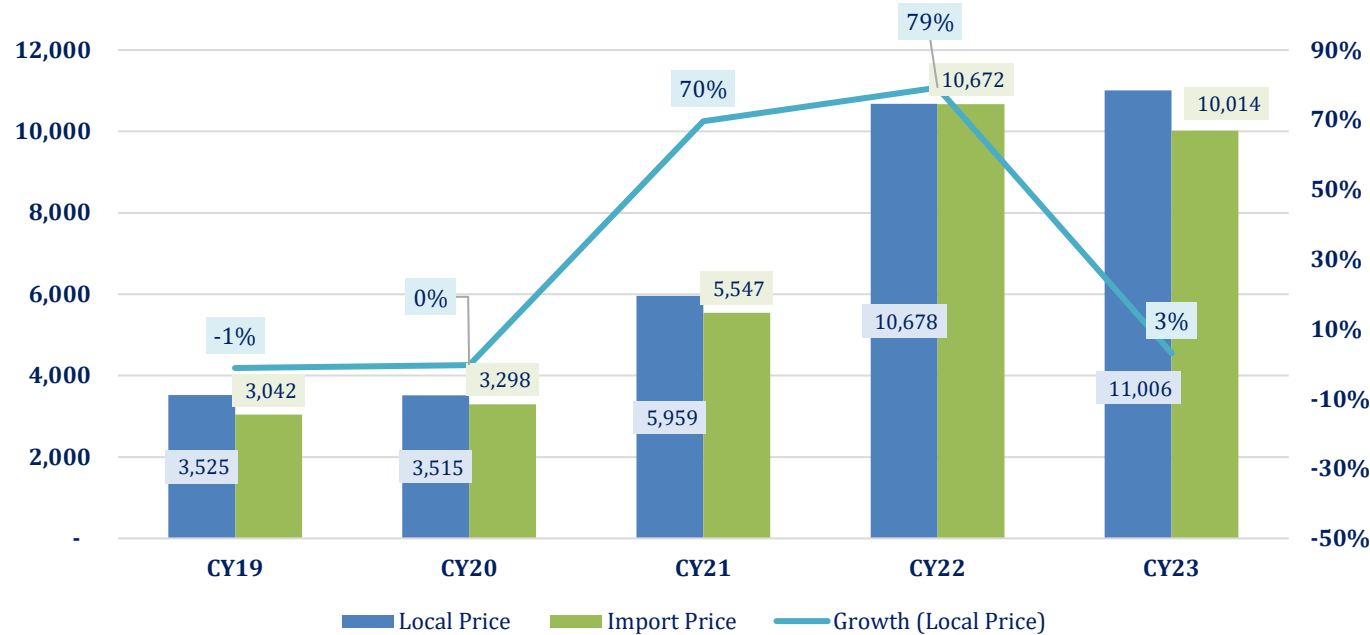


- Over the past four years (CY19-22) average global DAP prices stood at USD~495/MT.
- In CY23, DAP prices were recorded at USD~565/MT (CY22: USD~772/MT), down ~27.1% YoY, as farmers cut back on fertilizers field applications owing to affordability and availability issues. However, prices continue to remain higher than the average historical levels.

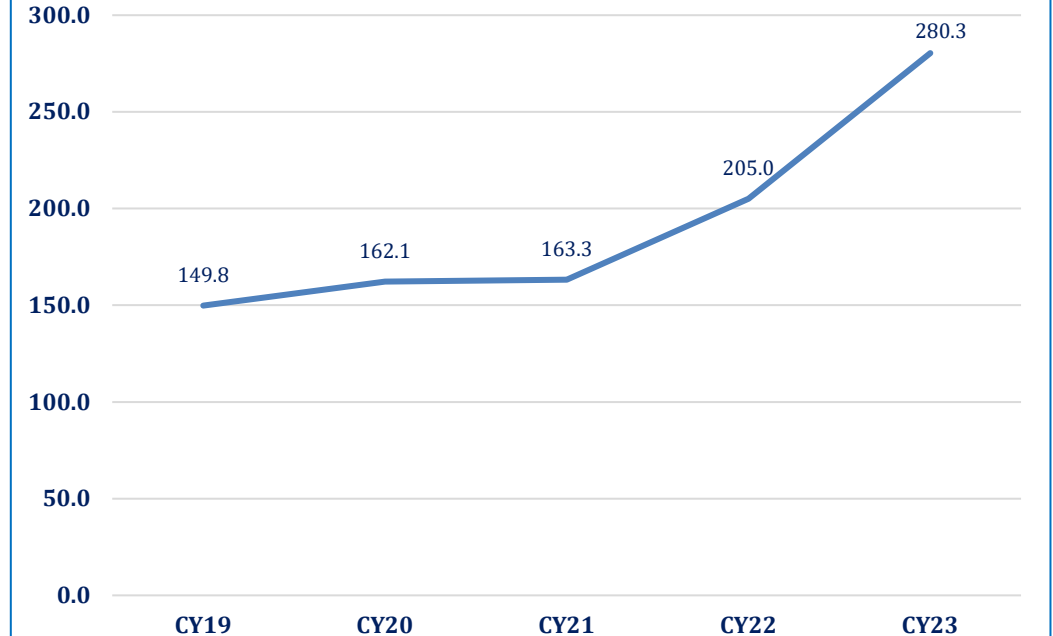
Fertilizers

DAP | Local Price Dynamics

DAP | Local vs. Import Price (PKR/50Kg Bag)



Exchange Rate (USD/PKR) | Yearly Average

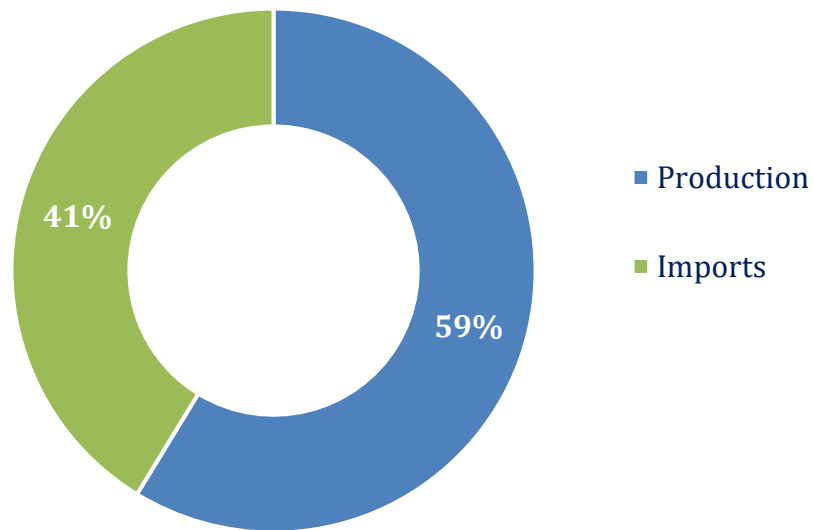


- During CY23, local DAP prices registered ~3% YoY increase, while average prices during CY19-23 were recorded at PKR~6,937/50Kg. On the other hand, import prices during CY23 were down ~6.2% YoY, while these averaged at PKR~6,515/50Kg during CY19-23. The sharp decline in the global prices in CY23 can be attributed to factors including ~54.5% YoY decline in global natural gas prices.
- Unlike urea, locally produced DAP typically commands a higher price than its imported counterpart. This is primarily due to the elevated cost of raw materials for DAP. The delta between imported and local prices of DAP widened to ~9.0% in CY23, compared to ~0.1% in CY22.

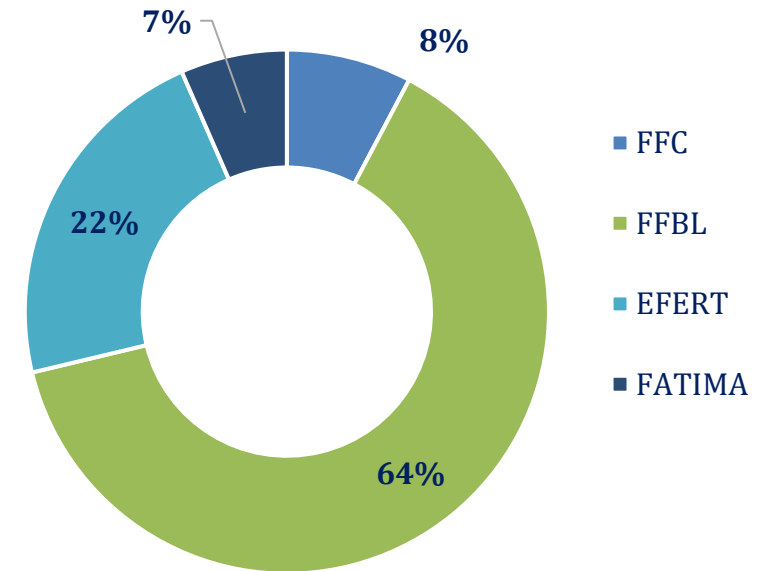
Fertilizers

DAP | Market Players

DAP | Production vs. Imports | CY23



Market Share | Offtake Wise | CY23



- In term of offtake, FFBL leads the market with a share of ~63.5% since it is the only major local manufacturer of DAP. Following it are EFERT and FFC sustaining second and third market positions with ~22.2% and ~7.7% shares, respectively (in terms of DAP offtake).
- Collectively, the share of Fauji Group is ~72.2% in the total market share in terms of the DAP offtake.

Fertilizers

DAP | Outlook

- For the ongoing Rabi season (Oct'23-Mar'24), DAP availability (inclusive of imports) stands at ~0.98mln MT, which appears to be enough given the estimated offtake of ~0.85mln MT
- The closing inventory of DAP at the end of the last Kharif season (Apr-Sep'23) was ~0.038mln MT, lower than that recorded in previous season. This was majorly on account of higher estimated offtake and lower estimated production.
- DAP imports during the upcoming Rabi season are estimated to be ~0.5mln MT (Oct-Mar'23: ~0.4mln MT), marking a ~20.0% increase YoY, likely due to a forecast production shortfall (compared with offtake levels) of the same amount. Moreover, offtake levels are expected to be ~23.8% higher YoY on account of lower global DAP prices.

DAP Position (000 MT)	Actual	Estimated			Rabi (Oct-Mar)
	Oct-Dec'23	Jan'24	Feb'24	Mar'24	CY23-24*
Opening Stock	38	33	156	145	38
Imports	360	150	0	0	510
Production	216	70	70	75	431
Total Availability	614	253	226	220	979
Offtake	581	97	81	92	851
Closing Inventory	33	156	145	128	128

Fertilizers

Business Risk | Overview



Demand-Supply Gap

Despite achieving self-sufficiency in the production capacity of urea, a shortage of indigenous gas creates a demand supply gap time and again which results in either the need to import urea at higher prices or use imported LNG to meet urea demand (Fatima Fertilizer & Agritech).



GIDC

The fertilizer sector was subject to GIDC of PKR~300/MMBTU for feed gas and PKR~100/MMBTU for fuel gas prior to Jan'20. In CY20, the government reduced the GIDC rate from PKR~400/MMBTU to PKR~5/MMBTU which led to a reduction in urea prices, thereafter.



Increased Input Costs – Gas Prices

The key input for urea production is natural gas, which is used both as fuel and feed stock. Any increase in gas prices is fully passed on by the manufacturers.



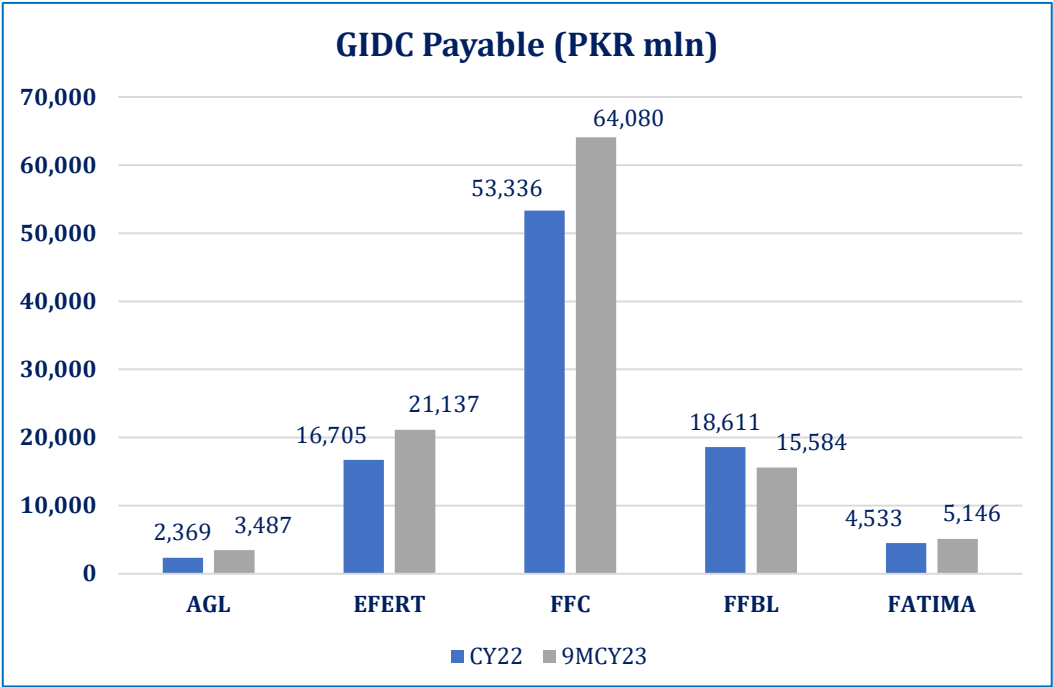
Super Tax and Sales Tax Refund Resolution

Through Finance Act 2023, the rate of Super Tax has been enhanced to 10% and is retrospectively applicable to Financial Year 2022. Prior to Finance Act, 2023, all types of fertilizers including DAP were exempt from sales tax. Through Finance Act, 2023, a reduced rate of 5% sales tax has been imposed on import and local supply of DAP only. However, excess input tax, if any, shall not be admissible for refund.

Fertilizers

Business Risk | GIDC

- The Gas Infrastructure Development Cess Act (GIDC) was enacted in CY15. Under this Act, all consumers of gas (other than domestic) were liable to pay this additional levy. Since gas is a major input for fertilizer manufacturers, therefore, they were also subjected to GIDC. Fertilizer Industry uses gas as both feed stock and fuel (for electricity generation, steam). The sector is currently subject to PKR5/MMBTU GIDC rate (down from PKR~300/MMBTU for feedstock in PKR~100/MMBTU for fuel stock since CY14).
- Comparison of GIDC payables for CY22 and 9MCY23 reveals that these grew for all fertilizer manufacturers except FFBL, owing to a decline in overall payables. The largest increase is for Agritech with a YoY increase of ~24%. The average YoY increase for the other manufacturers is ~4%. Following the expiry of the concessionary GSAs (in Jun’21 for Engro Fertilizers and Jul’20 for Fatima Fertilizer), the GoP has revised the gas sale prices as depicted below.



Supply Network	Company Name	FY23	FY24	FY23	FY24
		Feed Stock Prices (per MMBTU)		Fuel Stock Prices (per MMBTU)	
Mari	Engro Fertilizers*	302	580	1,023	1,580
SNGPL		USD~0.7	USD~0.7	1,500	1,580
Mari	Fatima Fertilizers Company Limited	302	580	1,023	1,580
Mari	Fauji Fertilizer Company Limited	302	580	1,023	1,580
SNGPL	Pak Arab Fertilizer	510	510	1,500	1,500
SSGCL	Fauji Fertilizer Bin Qasim Company Limited	510	580	1,500	1,580

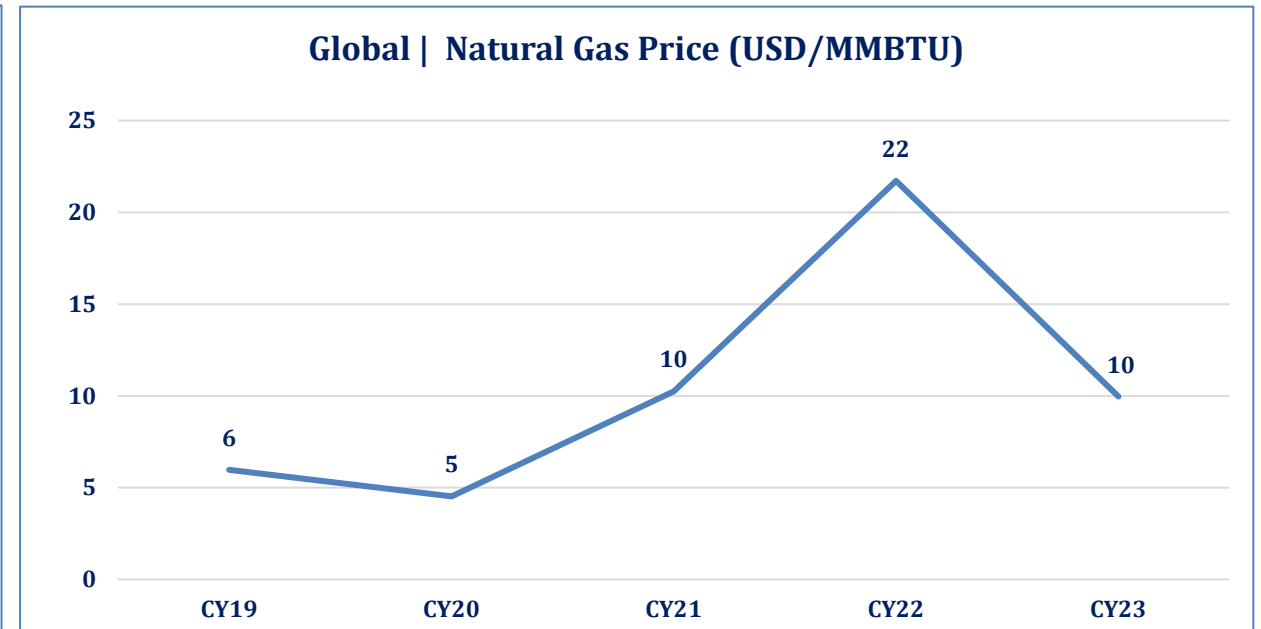
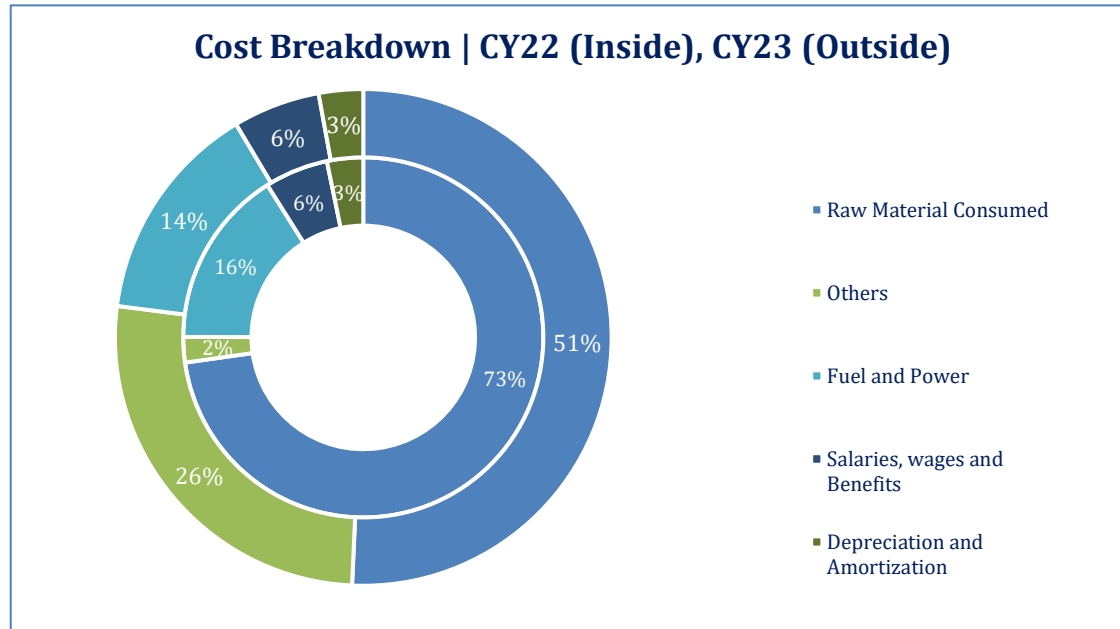
*Engro Fertilizer receives gas from SNGPL at a rate of USD ~0.7/MMBTU for feedstock in FY24. **Note:** Prices for gas supply are notified on respective dates: Pak-Arab (15 Feb, 2023), Engro Fertilizers (SNGPL) and FFBL (08 Nov,2023), Engro (Mari), Fatima and FFC (27 Oct, 2024). GIDC payables for 9MCY23 are estimated per GIDC share in CY22 liabilities.

Source: PSX, OGRA

21

Fertilizers

Business Risk | Price and Cost Structure

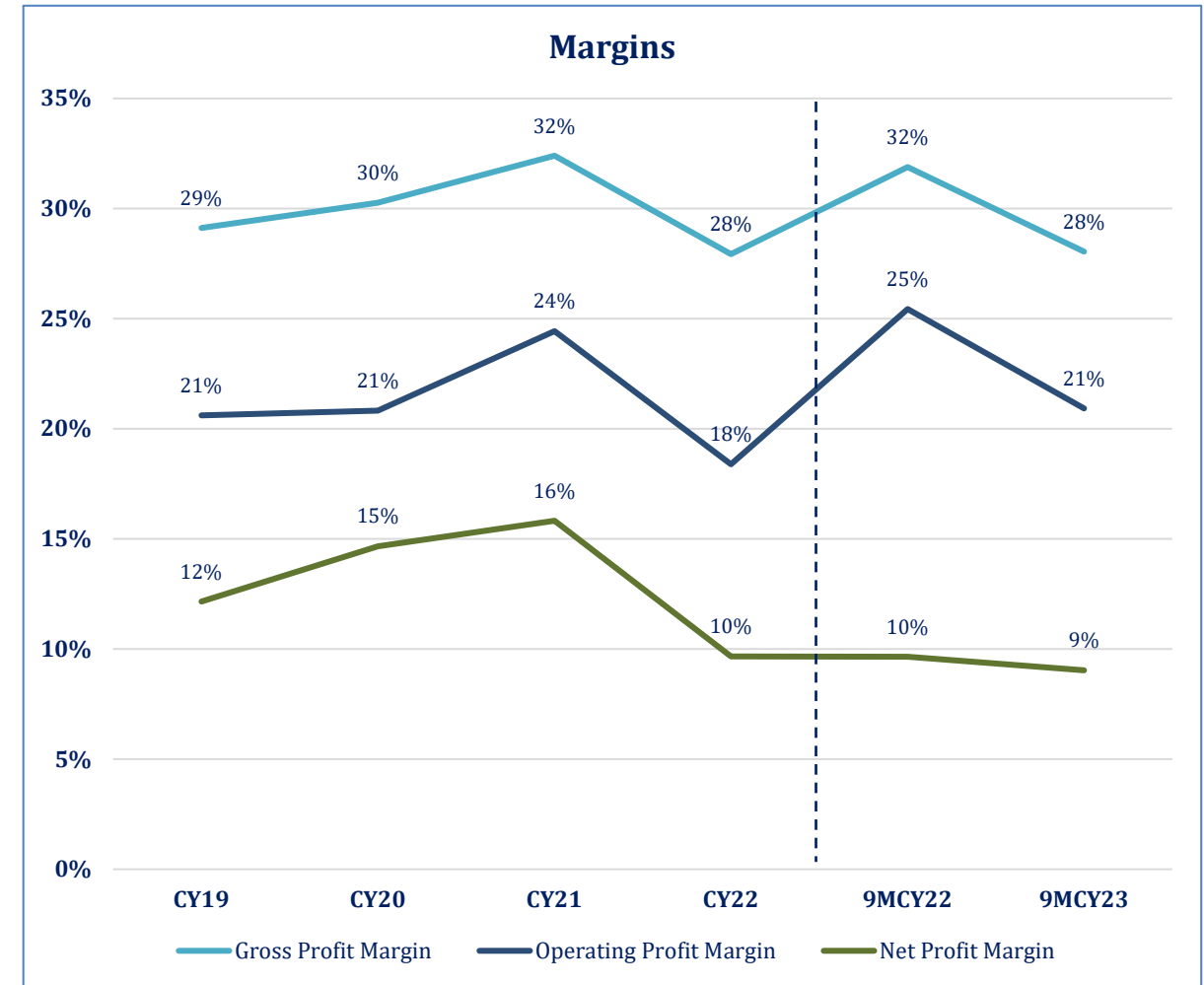


- The largest contributor to the sector's direct cost is raw material cost, as depicted. Raw material costs, particularly gas prices, GIDC, and taxes, significantly impact the direct costs of the sector.
- Global average natural gas prices eased to CY21 level of PKR~10/MMBTU, with a YoY downtick of ~54.5% YoY (CY22 proved to be an exception in this case). The recovery in prices came on the back of lower consumption levels owing to milder weather conditions. This resulted in lower import prices for Pakistan, despite significant currency depreciation.

Fertilizers

Business Risk | Margins

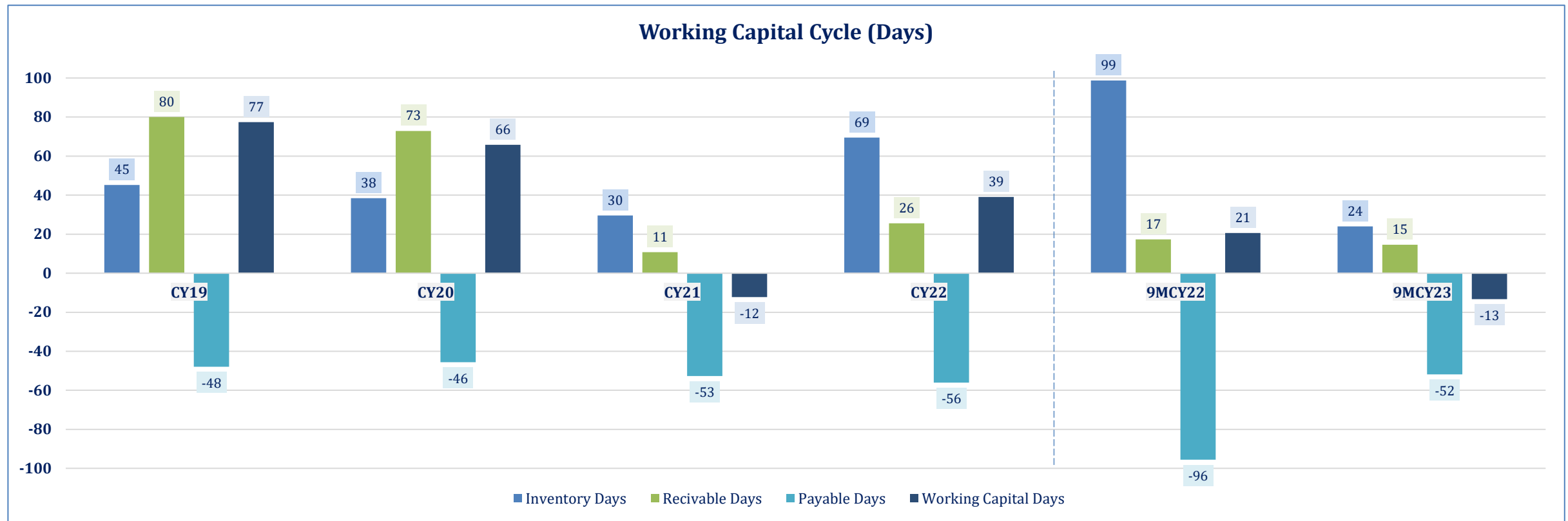
- The average gross profit margins during CY19-22 were recorded at ~29.9% and declined slightly in 9MCY23 to ~28.0%.
- The average operating margins in the CY19-CY22 period hovered around ~21.1%. In the 9MCY23 period, the operating margins declined slightly to ~20.9%, owing to higher administrative and general costs as average inflation in the country soared by ~27.3% during CY23.
- Average historical net margins stood at ~13.1% during the period CY19-CY22, however, declined to ~9.0% in 9MCY23 period. A significant contributing factor was the imposition of enhanced Super Tax through the Finance Act 2023 to 10%, which is retrospectively applicable to FY22. On a pro-rated basis, taxation expenses for the sector increased ~55.4% YoY between CY22-23.



Fertilizers

Financial Risk | Working Capital Management

- The sector's inventory days decreased from ~99 days in 9MCY22 to ~24 days in 9MCY23, likely due to an uptick in the offtake levels during the time period. Receivable days also decreased from ~17 days in 9MCY22 to ~15 days in 9MCY23 due to favorable credit policies.
- Similarly, sector's average payable days decreased from ~96 days in 9MCY22 to ~52 days in 9MCY23.



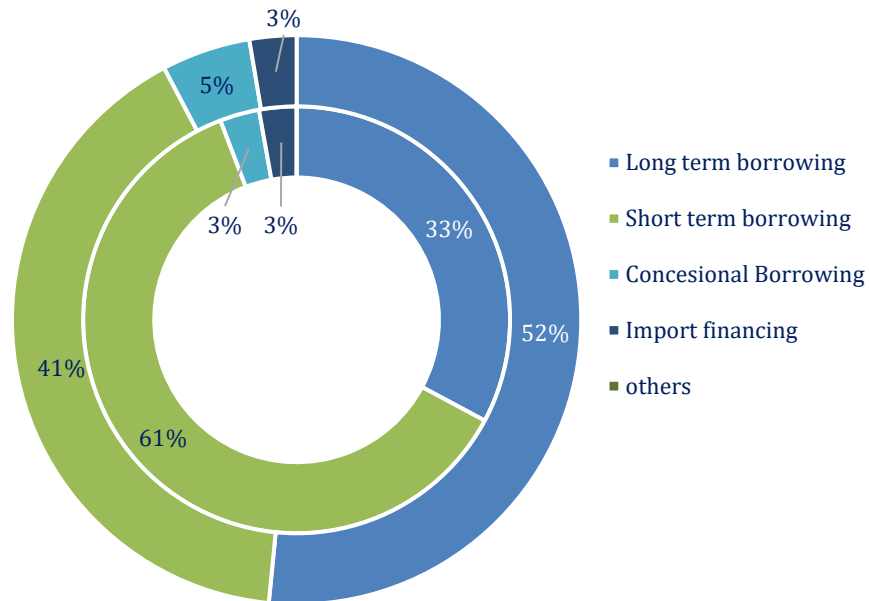
Note: Financials of five major players EFERT, FFC, FFBL, AGL & FATIMA have been used.

Fertilizers

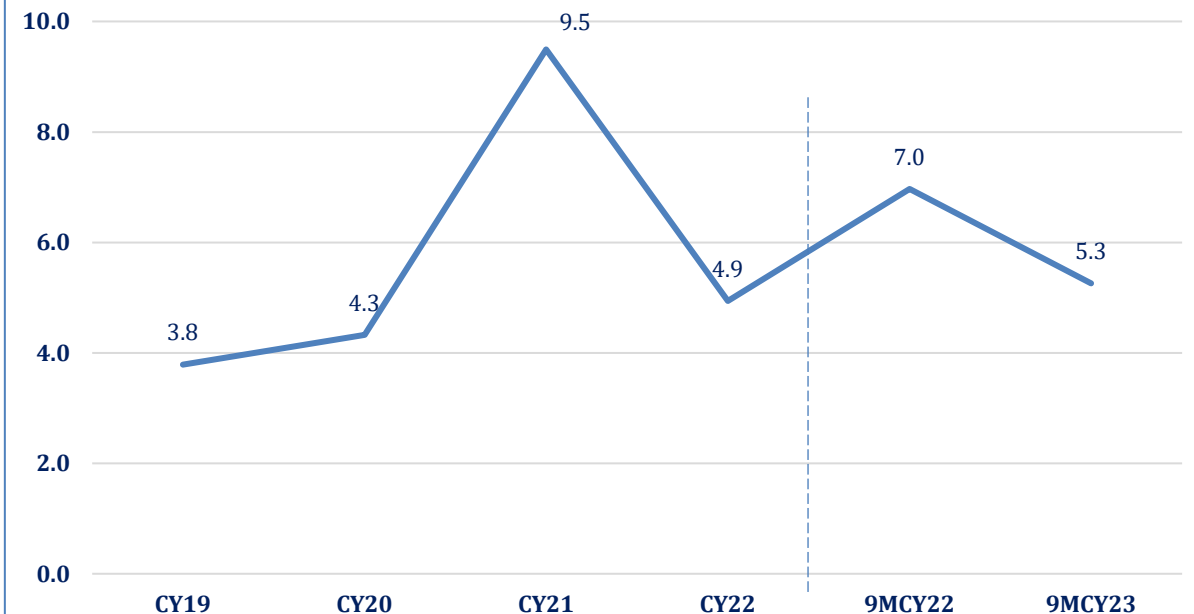
Financial Risk | Borrowing

- The sector's debt mix comprises Long-Term Borrowings (LTBs) with a share of ~51.6%, while the portion of Short-Term Borrowings (STBs) was recorded at ~40.7% as of End-Dec'23.
- The sector can be characterized as low leveraged during 9MCY23, with debt-to-equity ratio of the sector recorded at ~19.2% on account of lower borrowing, however this had previously stood at ~40% on average during CY19-CY22.
- The average interest cover of the sector is recorded at ~5.6x (CY19-22). In 9MCY23, interest coverage fell to ~5.3x (CY22: ~7.0 times). This can be attributed to higher taxes and finance costs for the sector.

Borrowing Mix | Dec'23 (Outside), Dec'22 (Inside)



Interest Coverage Ratio (times)



Fertilizers

Duty Structure

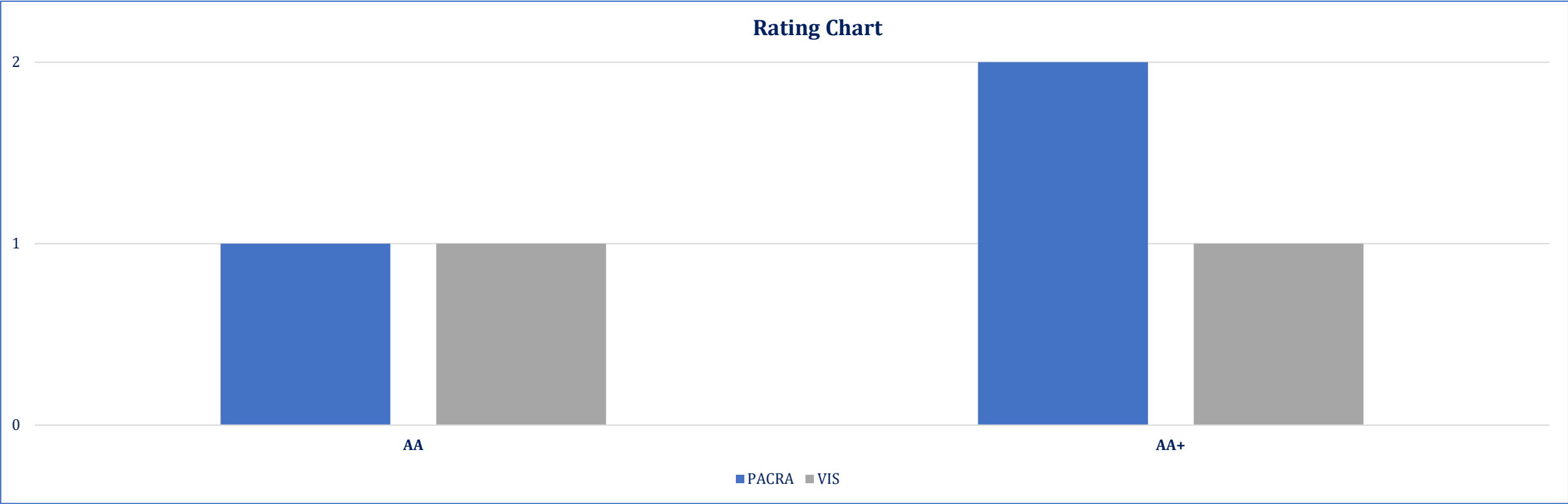
The table below details the taxes and duties implemented on the fertilizers sector in the years FY23 and FY24.

HS Code	Description	Custom Duty		Additional Custom Duty		Sales Tax		Income Tax	
		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
3102.1000	Urea	0%	0%	2%	2%	18%	18%	11%	12%
3105.3000	Diammonium Phosphate (DAP)	0%	0%	2%	2%	18%	18%	11%	12%
3104.3000	Potassic Fertilizers	0%	0%	2%	2%	18%	18%	11%	12%

Fertilizers

Rating Curve

- PACRA rates 3 clients in the fertilizers sector, in the rating bandwidth of AA to AA+.



Fertilizers

Porters 5 Forces Model



Fertilizers

SWOT Analysis

- Availability of land and raw material
- Low-cost skilled and unskilled labor
- Capital-intensive sector
- Demand potential
- Strong dealership and distribution network
- Diversified portfolio (Urea, DAP, CAN)
- Producing more than 100% of the installed capacity.

- Uncertain government policies
- PKR devaluation leading to increased costs
- Import of Urea and other fertilizers
- Shortage of Gas, especially in winters
- Fuel price hike
- Challenging farm economies



- Reliance on depleting natural resources
- DAP- price elastic product
- Gas supply and international price dependency
- GIDC Challenge
- Dependency upon irrigation facilities and rainfall
- Lack of knowledge of farmers

- Growing population and food consumption
- Agri-based economy
- Government support programs for farmers
- Alignment of gas pricing to fertilizer policy
- Pakistan GDP recovery leading to opportunities for investment
- Development of value chains
- Capacity of horizontal & vertical integration

Fertilizers

Outlook: Stable

- Pakistan's economy posted a real GDP contraction of ~0.2% in FY23 (FY22: ~6.1%), while the LSM declined by ~10.3% (FY22: ~11.8%), owing majorly to supply-chain disruptions which resulted from SBP-imposed import restrictions, along with the flash floods of Aug'22, and consequent sluggish demand across major industrial sectors of the country. In FY23, the Fertilizers sector's weight in the QIM was recorded at ~3.9%.
- The LSM activity has slowed down by ~0.80% YoY in 5MFY24 period, whereas the Fertilizers sector in the LSM experienced a growth of ~11.2% during the same period, primarily driven by an uptick in Nitrogenous fertilizers.
- In CY23, the country's total fertilizers production reached ~8.8mln MT, while offtake showed an upward trend at ~10.1mln MT. The Fauji Group maintained a significant market share, contributing ~41% to the production and ~34% to the offtake. Specifically, Urea and DAP production in CY23 amounted to ~6.4mln MT and ~0.7mln MT, with an offtake at ~6.6mln MT and ~1.5mln MT, respectively. To meet the demand, imports of ~0.05mln MT of Urea and ~0.5mln MT of DAP were necessary due to lower international prices compared to local prices.
- Average local prices of Urea (PKR ~3,427/50Kg) and DAP (PKR ~11,006/50Kg) witnessed an increase of ~51.0% and ~3.0% respectively in CY23. This surge was attributed to heightened input costs, gas curtailments, and elevated energy expenses, all contributing to the rise in domestic urea prices.
- Projected Urea and DAP production for the upcoming Rabi Season (Oct'23-Mar'24) stands at ~3.28mln MT and ~0.4mln MT, respectively. However, the demand for the same period is estimated at ~3.3mln MT for Urea and ~0.9mln MT for DAP. Consequently, despite PKR devaluation by ~25.1% during (Oct'23 - Jan'24), imports are anticipated in CY24. The import bill (especially in the case of DAP) is likely to be offset by favorable global prices.
- The 2HFY23 was also plagued by high inflation which soared to ~33.1% on average, high cost of borrowing as the policy rate rose to ~22% in Jun'23 and ~46.6% YoY PKR devaluation. Despite these recessionary pressures, the sector's average gross profit margins remained unchanged at ~28% in 9MCY23 compared against SPLY. Average net profit margins, however, declined from ~10% in CY22 to ~9% in 9MCY23, likely on the back of increased operation costs and taxation.
- Going forward into FY24, the real GDP is up ~2.13% YoY in 1QFY24, inflationary pressures are subsiding while the PKR is strengthening. Meanwhile, production targets for major demand drivers of fertilizers. i.e., Wheat, Maize, Rice, and Cotton (up ~1.3%, ~1.2%, ~22.9%, ~161.2% YoY, respectively) suggest favorable conditions for the sector's stable growth. Moreover, local fertilizer prices, vis-à-vis high cost of production, are expected to remain elevated on account of gas price hikes during 4QCY23, as per the directives of the IMF. As opposed to dim LSM activity in 5MFY24, the sector's performance remained robust (albeit largely due to growth in Nitrogenous fertilizers segment), cementing the grounds for stable growth.

Fertilizers

Bibliography

- National Fertilizer Development Centre
- Pakistan Economic Survey
- State Bank of Pakistan
- Pakistan Bureau of Statistics
- Pakistan Stock Exchange
- PACRA Internal Database
- World Bank
- Federal Board of Revenue
- United States Department of Agriculture
- Trade Information Portal
- Food and Agriculture Organization
- Reuters
- OGRA
- EOS Data Analytics

Research Team	Saniya Tauseef <i>Sr. Manager Research</i> saniya.tauseef@pacra.com	Ayesha Wajih <i>Supervising Senior Research</i> ayesha.wajih@pacra.com	Saba Farooq <i>Research Analyst</i> saba.farooq@pacra.com
Contact Number: +92 42 35869504			

DISCLAIMER

PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. The information in this document may be copied or otherwise reproduced, in whole or in part, provided the source is duly acknowledged. The presentation should not be relied upon as professional advice.