



# Fertilizer Sector An Overview

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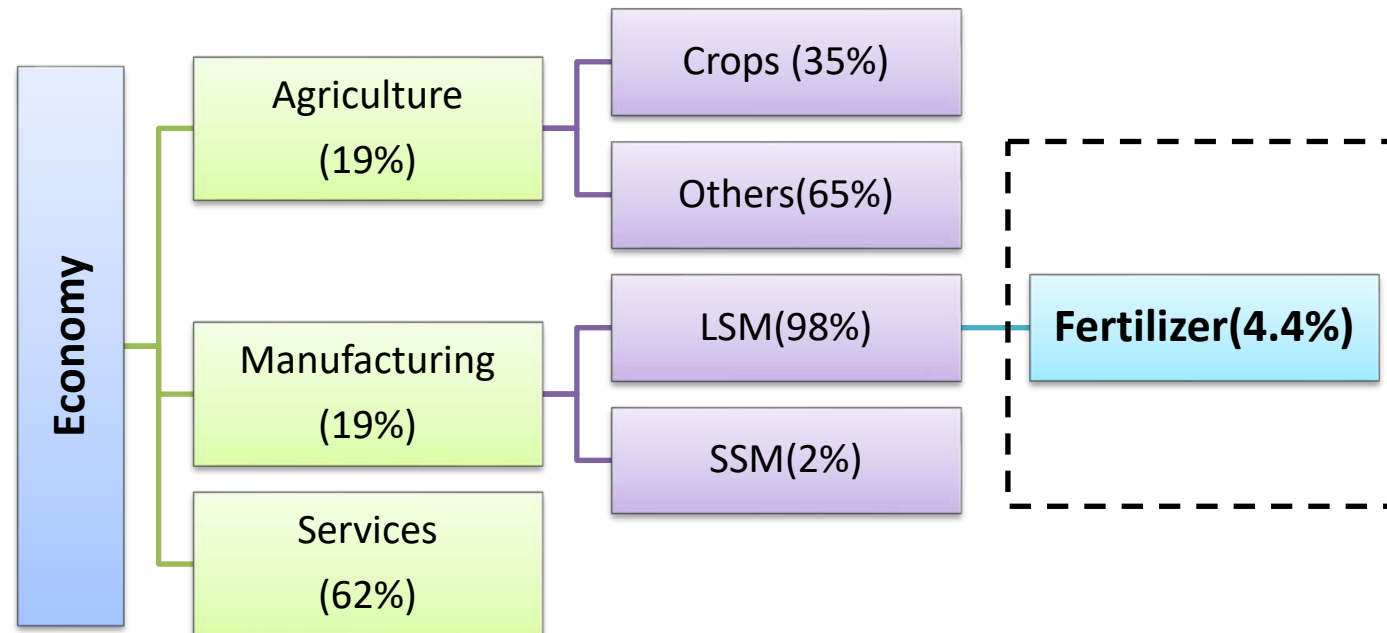
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# Fertilizers

## Agriculture Overview

- Pakistan’s agriculture sector contributes ~19% to its GDP. During FY20, the country’s overall GDP contracted by ~0.4% on account of the Covid-19 pandemic spread (a growth of ~1.2% in FY19). Despite the decline, agriculture sector posted a growth of ~2.7% (~0.6% in FY19), since it remained less vulnerable on account of its essentiality. The Country’s real and nominal GDP were recorded at PKR~12.5trn (USD~79bln) and PKR~39trn (USD~246trn) respectively in FY20 as compared to PKR~12.6trn (USD~92trn) and PKR~36trn (USD~262trn) in FY19.
- Agriculture is the largest sector of the economy in terms of labor employment. The Sector engages the largest workforce and provides raw material to certain manufacturing/industrial sectors. Moreover, demand for agricultural products has witnessed an increasing trend due to the country’s growing population, which has increased at an average rate of ~2.1% over the last five years.



## Agriculture | Important Crops

- The important crops account for ~22% of the value addition in agriculture sector.
- Cotton crop contributes about ~0.8% to the GDP and ~4.1% to the total value addition of the agriculture sector. The performance of cotton crop remained low in FY20 due to unfavorable weather, low water availability and pests attack.
- Sugarcane is a high value cash crop and accounts for 0.6% of GDP and 2.9% of total value addition in agriculture.
- Rice is the second main staple food crop after wheat. It contributes ~3.1% to value addition in agriculture and 0.6% in GDP.
- Wheat, the staple food crop of the country, accounts for ~8.7% of value addition in agriculture and contributes ~1.7% to GDP while maize contributes ~2.9% to value addition in agriculture and ~0.6% to GDP.

Production of Important Crops ('000' tons)					
Crop	FY16	FY17	FY18	FY19	FY20
Cotton ('000' bales)	9,917	10,671	11,946	9,861	9,178
<b>Growth (%)</b>	<b>-29%</b>	<b>8%</b>	<b>12%</b>	<b>-17%</b>	<b>-7%</b>
Sugarcane	65,482	75,482	83,333	67,174	66,880
<b>Growth (%)</b>	<b>4%</b>	<b>15%</b>	<b>10%</b>	<b>-19%</b>	<b>0%</b>
Rice	6,801	6,849	7,450	7,202	7,410
<b>Growth (%)</b>	<b>-3%</b>	<b>1%</b>	<b>9%</b>	<b>-3%</b>	<b>3%</b>
Maize	5,271	6,134	5,902	6,826	7,236
<b>Growth (%)</b>	<b>7%</b>	<b>16%</b>	<b>-4%</b>	<b>16%</b>	<b>6%</b>
Wheat	25,633	26,674	25,076	24,349	24,946
<b>Growth (%)</b>	<b>2%</b>	<b>4%</b>	<b>-6%</b>	<b>-3%</b>	<b>2%</b>

### Fertilizer Types by Nutrients

- Fertilizers are nutrients essential for the growth of plants and crops.
- There are three main types of fertilizer 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 fertilizer.

- It supports plants' rapid growth and encourages the healthy development of foliage and fruits (Urea, CAN)

Nitrogen



- It helps a plant convert other nutrients into usable building blocks with which to grow (DAP, SSP)

Phosphorous

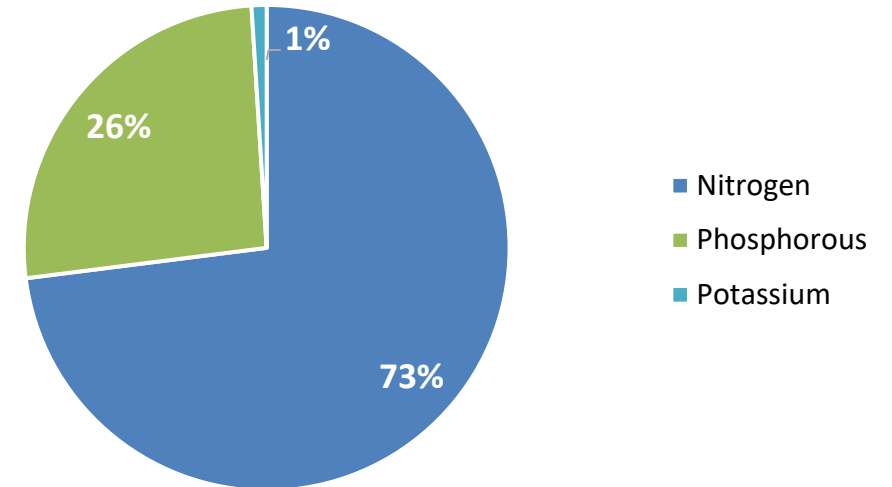


- Vital for proper growth and reproduction of plants (NPK, NP)

Potash



**% Break-up – Nutrient Wise | Offtake**

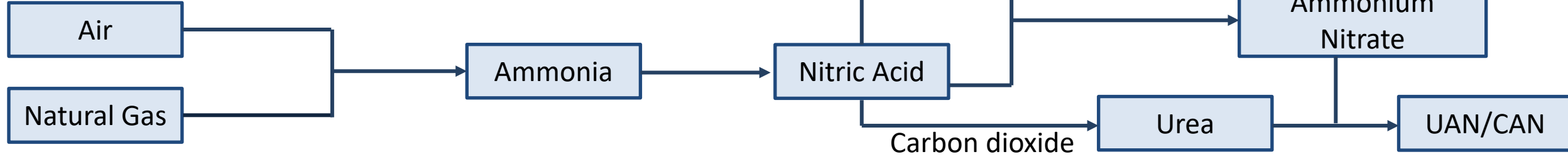


# Fertilizers

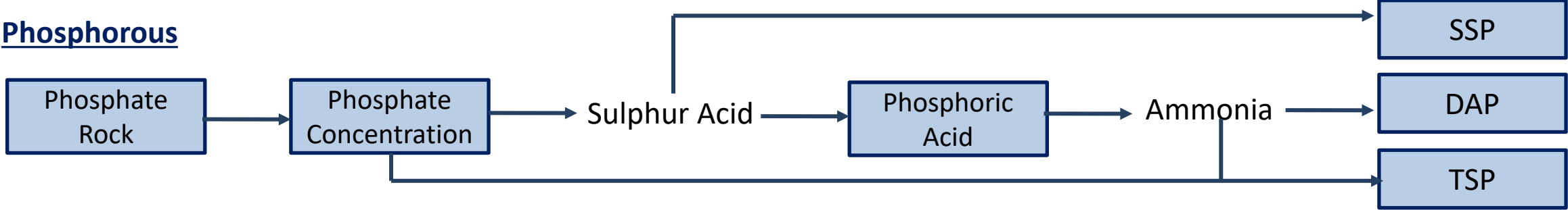
## Production Process

### Raw Materials

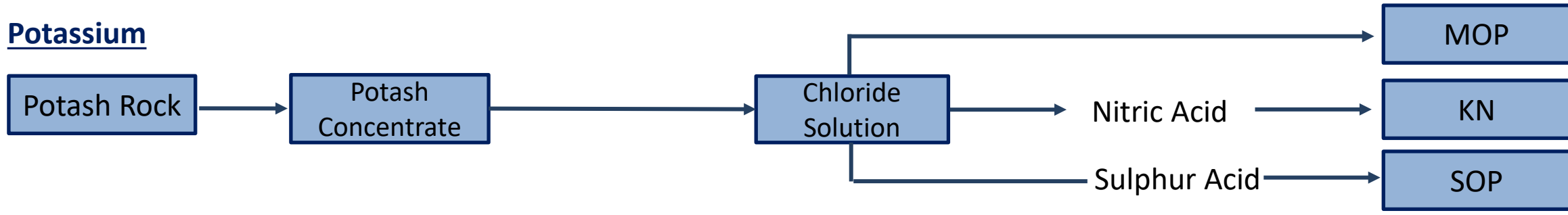
#### Nitrogen



#### Phosphorous



#### Potassium



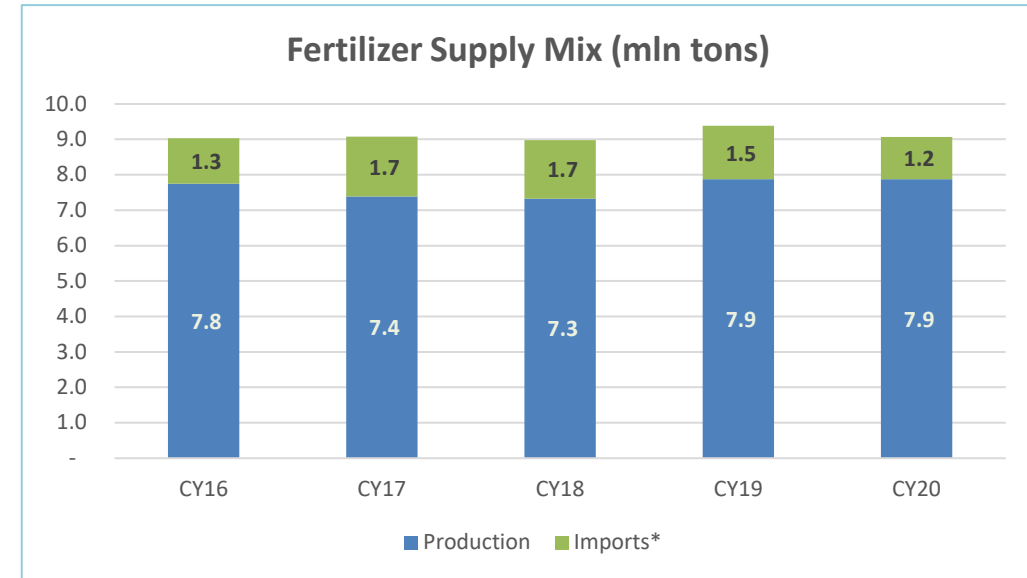
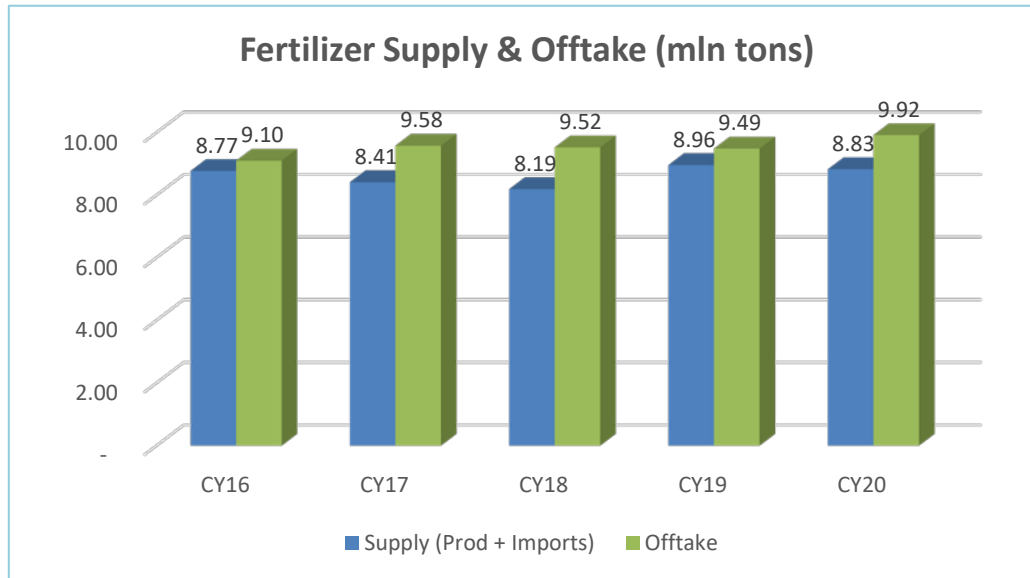
## Industry Snapshot

- The fertilizer industry is an essential contributor towards the agriculture sector of Pakistan’s economy.
- The industry is significant as it plays a vital role in ensuring the country’s food security.
- The industry is dominated by five Companies, which occupy ~95% of the market share. There are 4 players listed on the Pakistan Stock Exchange (PSX). These companies belong to the three Big Names of the Corporate Sector, Fauji Group, Engro Group and Fatima Group.
- Fertilizer sector contributes ~4.4% to the large-scale manufacturing (LSM) sector of Pakistan and ~0.9% to the overall GDP.
- Due to agriculture sector’s immense economic significance, the government has set out relief and subsidy programs, which lead to sustained demand for fertilizers.
- Agricultural output, credit disbursement of agricultural sector, government policies, rainfall and soil health are few of the main demand drivers for fertilizer Industry.

Overview	CY19	CY20
Revenue (PKR bln)	350	381
Contribution to Nominal GDP	0.97%	0.98%
Sector Players	6	6
Structure	Organized & Listed	
Annual Supply mln tons	8.6	8.9
Annual Offtake mln tons	9.5	9.7
Major Products   Offtake Wise		
Urea	64%	62%
DAP	21%	22%
Regulator	Ministry of National Food Security	
Associations	FMPAC & NFDC	

# Fertilizers

## Supply & Offtake

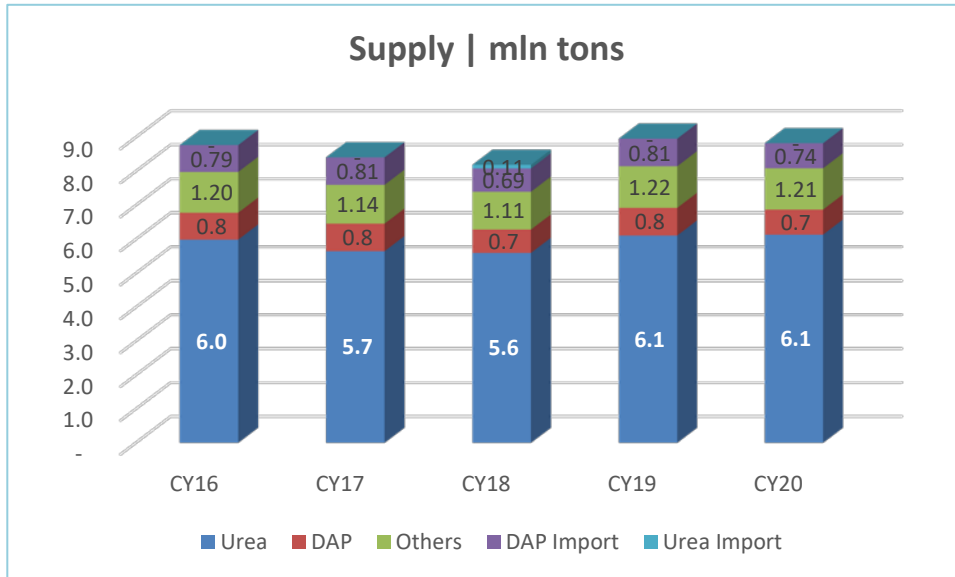


- Pakistan’s annual fertilizer production was recorded at ~8mln tons in CY20 (~8.1mln tons in CY19 – a meagre decline of ~1%).
- Annual fertilizer offtake was recorded at ~9.9mln tons in FY20 , a growth of ~5% YoY.
- Urea accounts for ~75% of the country’s fertilizer production. DAP contributes 8 – 10 % of the country’s fertilizer production because all Sector players, except FFBL, are involved in import of DAP. Other fertilizers, such as CAN, NPK, NP, SSP collectively account for 15 – 20 % of the country’s fertilizer production.
- On the offtake front, urea accounted for almost ~61% of the country’s total fertilizer offtake in CY20 followed by DAP (~24%).

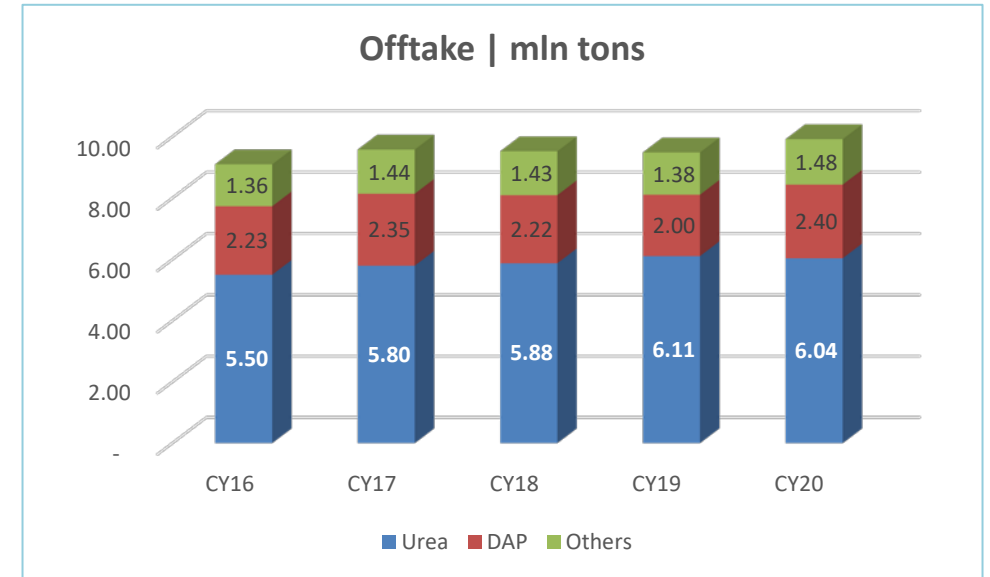


# Fertilizers

## Supply & Offtake | Product Wise



Production (% Share)	CY16	CY17	CY18	CY19	CY20
Urea	75%	74%	76%	75%	76%
DAP	10%	11%	9%	10%	9%
Others	15%	15%	15%	15%	15%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>



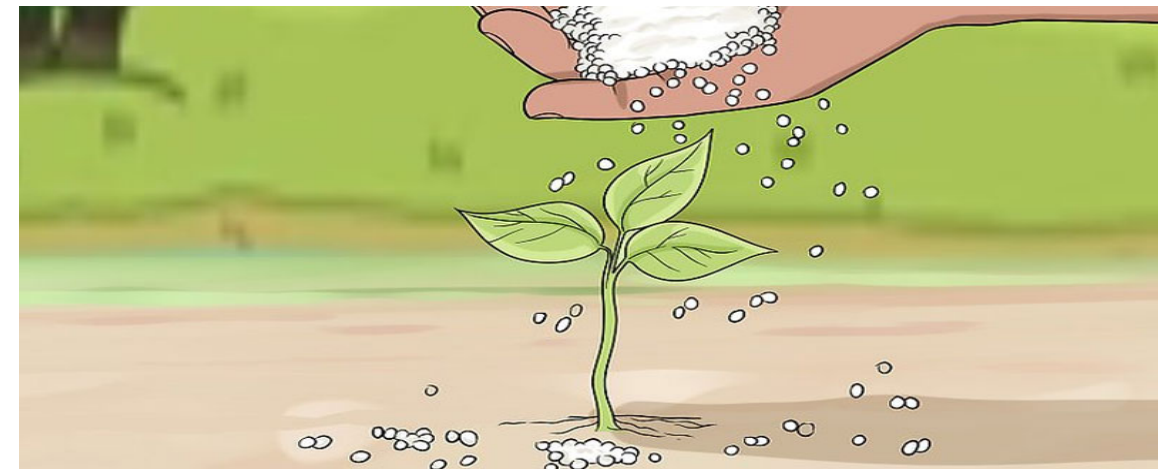
Offtake (% Share)	CY16	CY17	CY18	CY19	CY20
Urea	60%	61%	62%	64%	61%
DAP	25%	24%	23%	21%	24%
Others	15%	15%	15%	15%	15%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

\*Others majorly include CAN, NP, NPK whose share is assumed at ~15%.

## Dynamics

- Urea is the most widely used fertilizer, belonging to the nitrogenous category, which accounts for 60-65 % of the country’s offtake on average.
- Country demand for urea ranges between 6 – 6.1mln tons annually. Unlike DAP, demand for urea is less price sensitive. Another fertilizer of the nitrogen genre, CAN, is considered of the same properties as of urea to some extent. However, it is also priced around PKR~1,550 per bag, thus not creating a significant price differential with urea.
- Urea is almost equally used in both crop seasons of the country, i.e., Rabi (Oct-Mar) and Kharif(Apr-Sep).
- Key Input Raw Material for Urea is Natural Gas (feed stock), which is also used as fuel (fuel stock) in urea production.
- Following 2016, production capacity of the country has become sufficient to meet the demand of urea. However, owing to insufficient availability of indigenous gas, a supply shortfall is created time and again which necessitates provision of imported LNG for either urea production or its imports to bridge the demand supply gap.

Urea Position   000 Tons					
Period	CY16	CY17	CY18	CY19	CY20
Opening Inventory	593	1,085	381	199	203
Production	5,993	5,653	5,602	6,113	6,136
Imports			105		
Availability	6,586	6,738	6,088	6,312	6,339
Less:					
Sales	5,501	5,797	5,877	6,109	6,039
Exports		560	12		
Closing Inventory	1,085	381	199	203	300



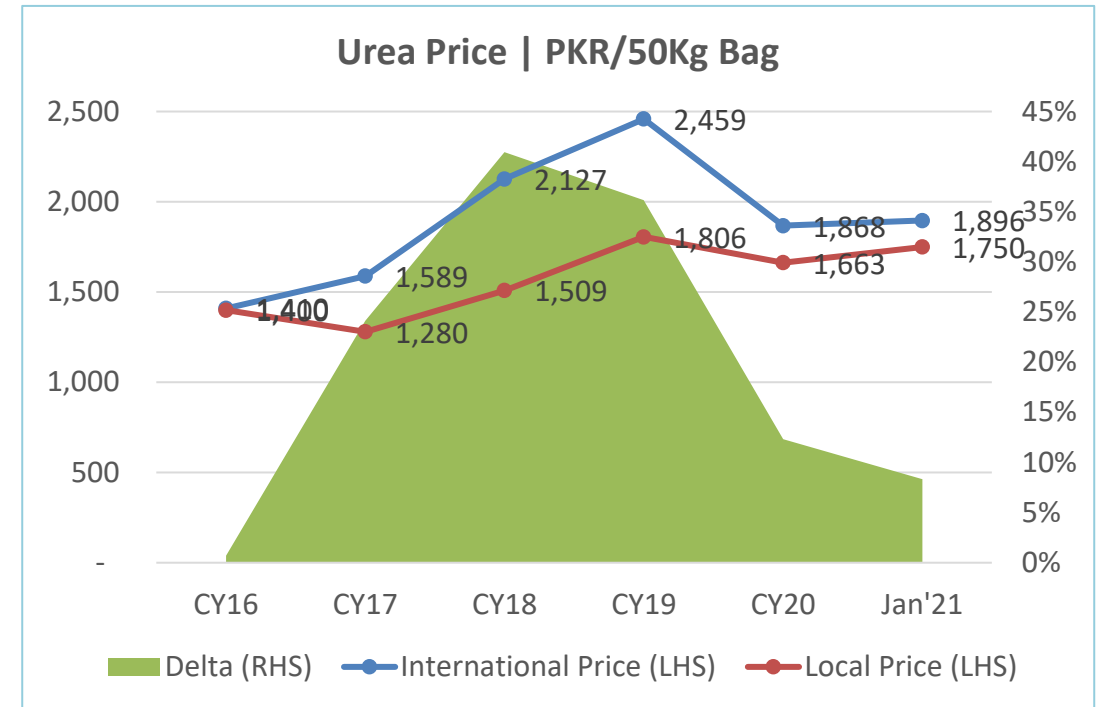
## Price Trend

### International Prices:

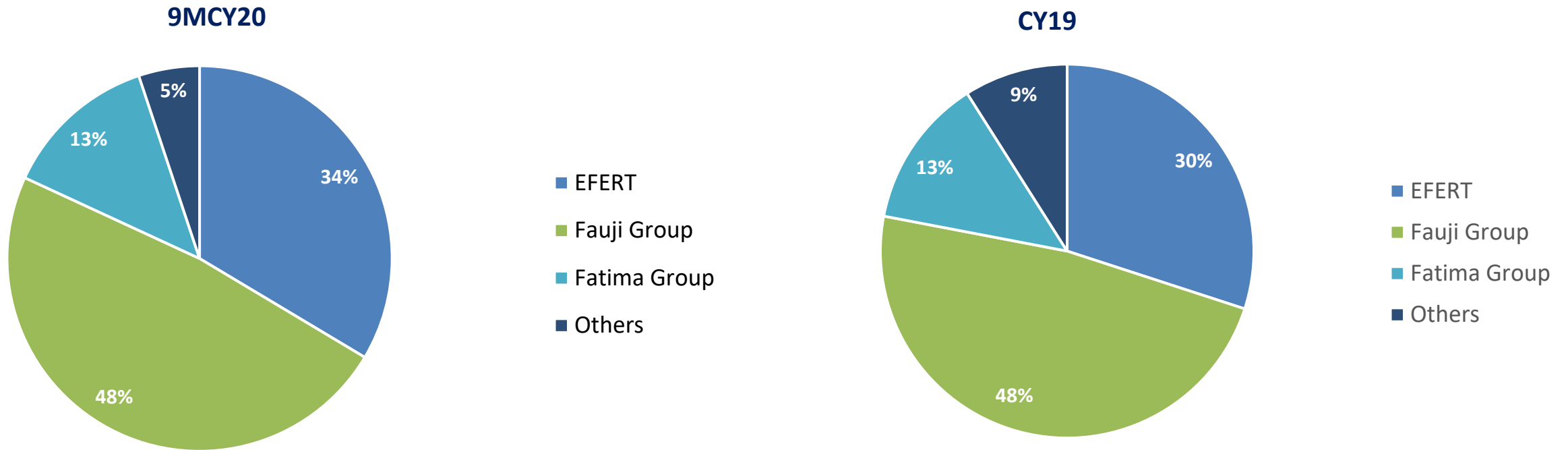
- Local Urea prices operate at a discount to the international urea price. The delta between the two rose to as high as ~41% and ~36% in CY18 and CY19 respectively due to tightened supply situation globally and available in-house capacity, on the contrary.
- International prices grew by a CAGR of ~6.1% in a five year period due to robust demand and increasing input costs. However, prices reduced by ~24% in CY20 due prevailing uncertainty of Covid-19 and falling demand. It is expected, that prices may increase by ~3% in CY21 due to growing demand from China.

### Local Prices:

- Local urea prices are a function of three major components (i) gas price fluctuations (ii) GIDC impact and (iii) Sales Tax Allowance. While changes in gas prices are a full pass through element, the GIDC cost is partially passed through and partially absorbed by the fertilizer manufacturers. Similarly, a change in Input Tax allowance impacts the price of urea per bag.
- As GIDC rate was prospectively reduced from PKR~450 to PKR~50 per mmbtu in CY20, the price of urea bag was likewise reduced by the fertilizer manufacturers.
- Following Jan'21, fertilizer companies decided to pass the impact of the imposition of new tax laws (Finance Act 2020), which disallowed adjustment of up to 10% of input GST and business expenditure against sales to unregistered persons. Thus, leading to increase in prices.



## Market Share – Offtake



- Fauji Group leads the market with a share of ~48% in the country's urea offtake. During 9MCY20, Engro gained a market share of ~4% increasing from ~30% in CY19 to ~34% in 9MCY20 on account of improved production.
- Meanwhile, the market shares of Fauji Group (including Fauji Fertilizer Company (FFC) and Fauji Fertilizer Bin Qasim Limited (FFBL)), and Fatima Group (Fatima, Fatimafert & PakArab) remained intact at ~48% and ~13%, respectively.

## Outlook

### Offtake:

- Total urea offtake during the first three months of Rabi 2020-21 season (Oct-Dec'20) was recorded at ~1.82mln tons (~1.85mln tons SPLY). Offtake reflected an increase of ~65% MoM basis in Dec'20 owing to early purchases on anticipation of price increase. Closing inventory of urea was recorded at ~299k tons as at End-Dec'20 (~204k tons End-Dec'19).

### Availability:

- Total urea availability for the next three months of the Rabi 2020-21 season (Jan-Mar'21) is estimated to be around ~1.65mln tons sufficient to meet the remaining demand of the season. Demand for urea is expected to average around ~1.4mln tons thus leaving an inventory of ~228k tons at End-Mar'21 for the next Kharif season.

Rabi Season 2020-21							
Urea (000 tons)	Oct	Nov	Dec	Jan	Feb	Mar	Total
Opening Inventory	473	672	668	299	213	157	473
Imported Supplies	-	-	-	-	-	-	-
Domestic Production	598	515	499	457	432	457	2,958
<b>Total Availability</b>	<b>1,071</b>	<b>1,187</b>	<b>1,167</b>	<b>756</b>	<b>645</b>	<b>614</b>	<b>3,431</b>
Offtake	413	533	881	543	488	386	3,244
Write off/on	14	14	13	-	-	-	41
<b>Estimated Inventory</b>	<b>672</b>	<b>668</b>	<b>299</b>	<b>213</b>	<b>157</b>	<b>228</b>	<b>228</b>

### Pricing:

- GIDC:** Following notification on reduced GIDC rate in Jan'20, all fertilizer manufacturers reduced their prices of urea bag according to their specifications. Overall, a decline of PKR~150/50kg bag was reflected at minimum in all manufacturers' prices. Average urea price per bag was recorded at PKR~1,650 in CY20 (PKR~1,800 in CY19).
- Gas Price:** During CY20, gas prices remained largely unchanged, thus not creating any impact on urea prices.
- Input Tax:** Lately, fertilizer manufacturers have responded to the disallowance of up to 10% of input tax on sales made to unregistered dealers (as per Finance Act, 2020), by increasing the price/bag. Urea price has increased by ~5% per bag to PKR~1,750 in Jan'21 from PKR~1,663 in CY20.

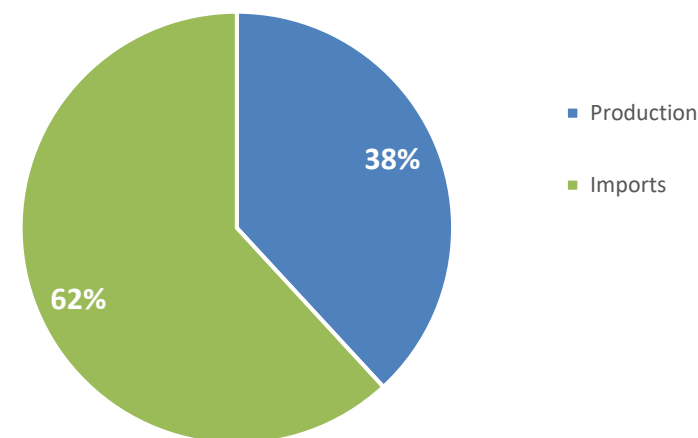


## Dynamics

- DAP belongs to the phosphorous category of nutrients and is the second most widely used fertilizer in the country following Urea.
- DAP is majorly imported except by Fauji Fertilizer Bin Qasim Limited (FFBL) which is the only local producer of DAP.
- Production during CY20 stood at ~0.74 mln tons, a decline of ~9% as compared to ~0.81mln tons SPLY due to high levels of opening stocks. Imports also dropped by ~21% in CY20 YoY due rising International prices and sufficient availability of stocks.
- This high level of opening inventory also contributed to an increase in DAP's availability, up by ~30% in CY20 YoY, resulting in a risen offtake by ~20%. This has, however, reduced the ending stocks as at End-Dec'20 (~112k tons as at End-Dec'20).

DAP-000 Tons					
Period	CY16	CY17	CY18	CY19	CY20
<b>Opening Inventory</b>	240	82	237	255	580
<b>Production</b>	791	809	687	813	737
<b>Imports</b>	1,283	1,691	1,549	1,512	1,195
<b>Availability</b>	<b>2,314</b>	<b>2,582</b>	<b>2,473</b>	<b>1,768</b>	<b>2,307</b>
<b>Less:</b>					
<b>Offtake</b>	2,232	2,345	2,218	2,000	2,400
<b>Closing Inventory</b>	<b>82</b>	<b>237</b>	<b>255</b>	<b>580</b>	<b>112</b>

Production & Import Mix | CY20



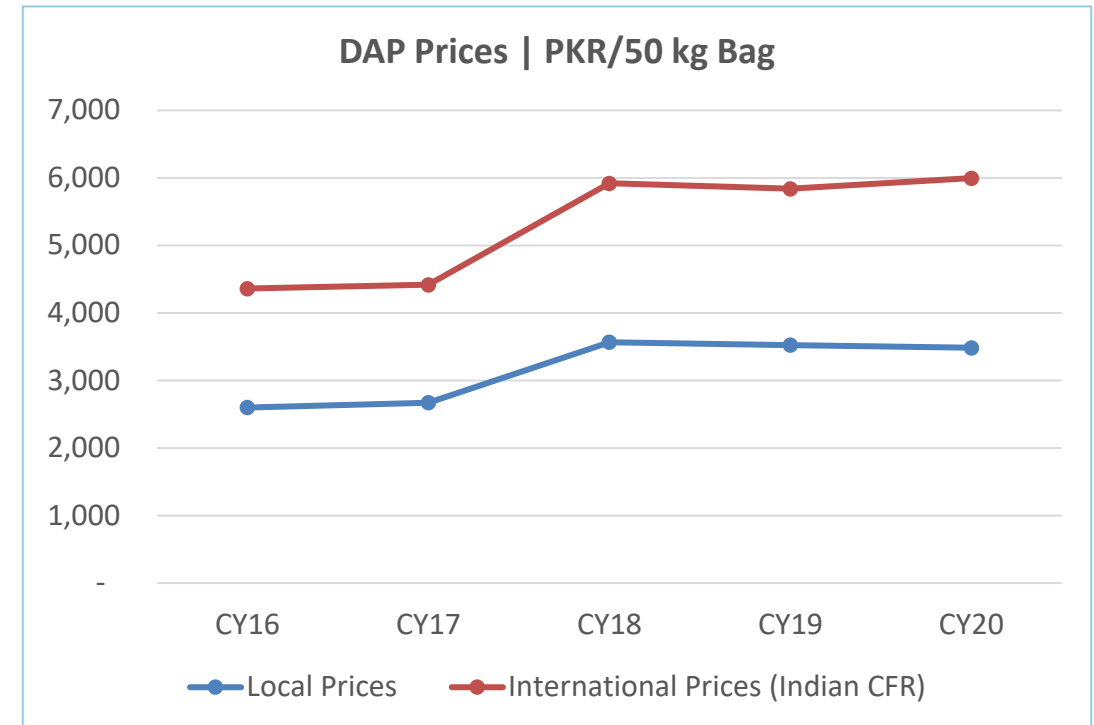
## Price Trend

### International:

- International DAP prices have remained resilient amid the Covid-19 pandemic and reflected a recovery during 2HCY20 after witnessing a drop in CY19 which occurred due to supply surplus and high inventory levels in the importing countries.
- Early monsoon rains in India boosted the Kharif plantings, while precipitation in Australia, after two seasons of drought, improved crop growing conditions.
- In Dec'20, the price of DAP China Bulk was recorded between USD 362 – 375/ton while the price of Australian DAP ranged between USD 345-440/ton.

### Local:

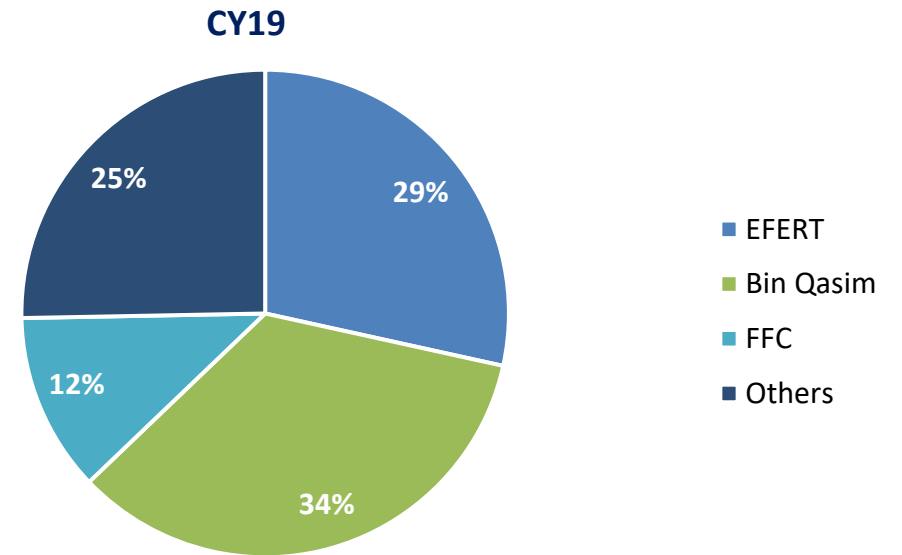
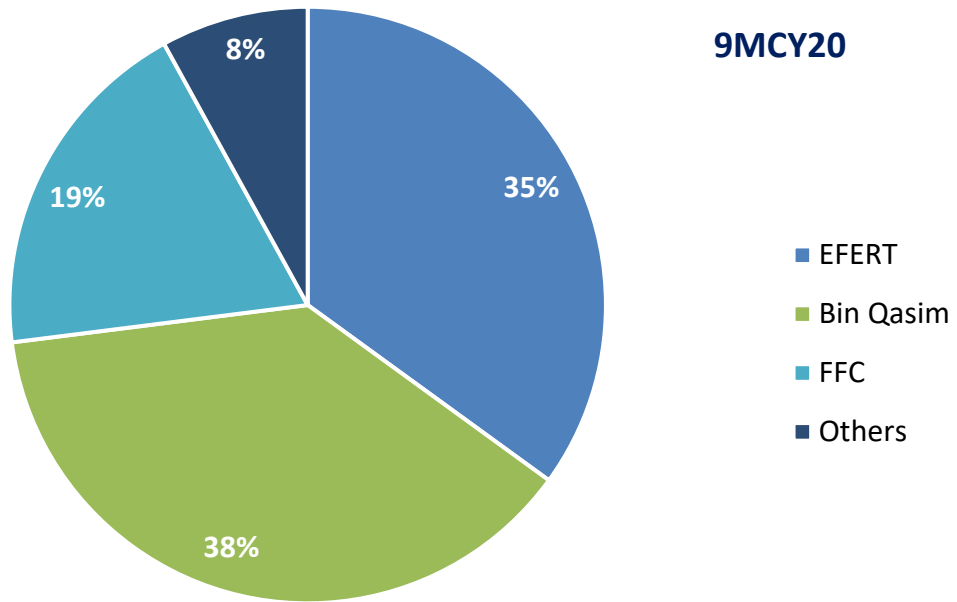
- The Ex-Karachi Price of imported DAP was recorded between PKR3,500-4,500 per 50 Kg bag in Dec'20. Following increase in International prices, local DAP prices also upsurged from PKR~3,500/bag in beginning of CY20 to PKR~4,100/bag in Jan'21, an increase of ~17%.
- The GoP, considering the increasing input prices and resultant food inflation, announced a subsidy package of PKR~5.4bln in 3QCY20, which would translate into a reduction of PKR~1,000/50 kg bag of DAP (~25%). The impact of subsidy is yet to materialize.



Source: EFERT Analyst Briefing 3QCY20

\*International Prices are converted to PKR using average exchange rates for the period

## Market Share - Offtake



- Engro and Fauji Group accounted for ~92% of the country’s DAP offtake in 9MCY20. FFBL held the largest market share of ~38% in 9MCY20 (CY19: ~34%) being the sole local producer of DAP.
- During 9MCY20, Engro’s market share increased to ~35% (CY19: 29%) while the market share of FFC increased to ~19% (CY19: ~12%).



## Outlook

### Offtake and Availability:

- DAP offtake during the first three months (Oct-Dec'20) of the ongoing Rabi Season 2020-21 was recorded at 790k tons (~868k tons 2019-20) down by 10% SPLY. Imported supply contributed ~63% of the current period availability along with opening stocks of ~298k tons.
- DAP availability for the next three months (Jan-Mar'21) of the Rabi 2020-21 season (including closing inventory of Dec'20 – 113k tons) is expected to be around 440k tons as against its estimated offtake of ~254k tons. With the current expected offtake, availability is sufficient. However, any increase in offtake pattern would necessitate increased supply and may influence the price.

### Pricing:

- The increase in International price of DAP in CY20 is reflected in the rise in local price of DAP too. However, unlike urea, DAP is a price sensitive product. A hefty cost of PKR~4,100/50kg bag makes it less attractive for farmer's use. Materialization of GoP's subsidy is expected to bring the prices down, going forward.

Rabi Season 2020-21							
DAP (000 tons)	Oct	Nov	Dec	Jan	Feb	Mar	Total
Opening Inventory	298	245	119	113	181	160	298
Imported Supplies	100	153	126	95	-	51	525
Domestic Production	76	77	73	43	65	73	407
<b>Total Availability</b>	<b>474</b>	<b>475</b>	<b>318</b>	<b>251</b>	<b>246</b>	<b>284</b>	<b>1,230</b>
Offtake	229	356	205	70	86	98	1,044
Write off/on	-	-	-	-	-	-	-
<b>Estimated Inventory</b>	<b>245</b>	<b>119</b>	<b>113</b>	<b>181</b>	<b>160</b>	<b>186</b>	<b>186</b>

## Business Risks – An Overview



### Demand Supply Gap:

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



### Increased Input Costs – Gas Prices

- The key input raw material 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.



### GIDC:

The fertilizer sector was subject to GIDC of PKR~300 per mmbtu for feed gas and PKR~150 per mmbtu for fuel gas prior to Jan'20. In CY20, the government reduced the GIDC rate from PKR~400/bag to PKR~5/bag which led to a reduction in urea prices. However, as per the Order of supreme court, manufacturers are now liable to settle the outstanding GIDC payable as at 31<sup>st</sup> July,20 (Discussed in detail later)



### Blocked Subsidy and Sales Tax Disparity

The Industry is facing challenge in the form of prior subsidy receivable from the GoP. In addition, there is a disparity in the sales tax on fertilizer products. Output tax is ~2% while the input tax ranges from 5%-15%. The resulting sales tax refund remains pending for the industry.

## Business Risk – Demand Supply Gap | Urea

- The country’s average urea demand from CY16 to CY20 has recorded between 5.8 – 6mln tons. The total installed capacity on indigenous gas plants is sufficient to meet this level of demand.
- However, lower utilization levels due to gas supply shortage, plant maintenance shutdowns and other factors result in a supply shortfall which is every now and again fulfilled through either imports or by operationalizing plants on imported RLNG. The price differentials are usually absorbed by the GoP or shared in part with the Sector players.
- Gas supply issues and price hikes, considering the depleting gas resources, are the key concerns for the fertilizer players since the industry is one of the highest consumers of natural gas.

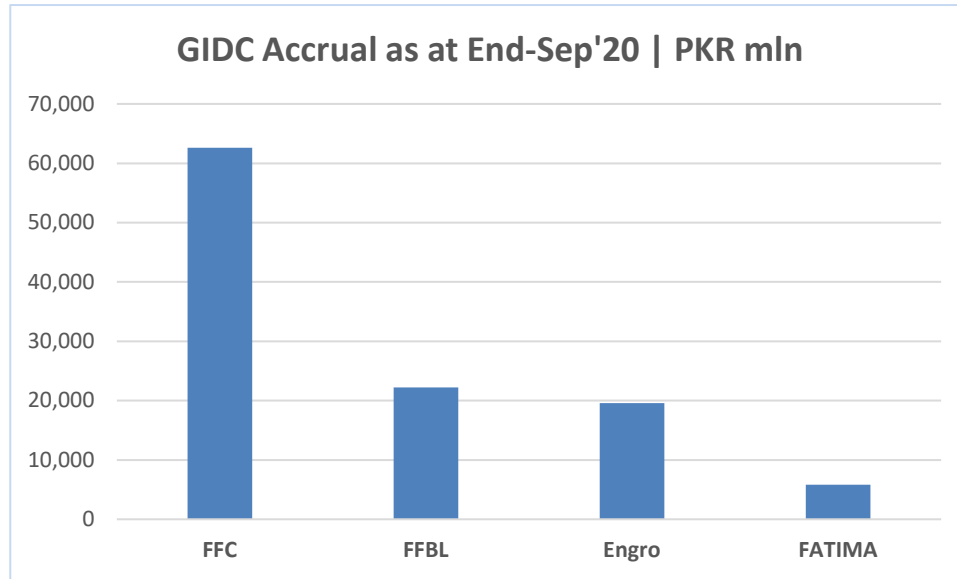
Plants on Indigenous Gas Supply	Installed Production Capacity - Urea (tons)	Utilized Capacity (%)				
		9MCY20	CY19	CY18	CY17	CY16
Engro	2,275,000	-	88%	85%	79%	83%
FFC	2,048,000	-	122%	123%	123%	123%
FFBL	551,100	-	92%	102%	-	-
Fatima*	945,500	47%	87%	64%	62%	92%
<b>TOTAL (A)</b>	<b>5,819,600</b>					

*‘-’ Not available*

Plants on Imported RLNG	Installed Production Capacity - Urea (tons)
Fatimafert	492,750
Agritech	433,125
<b>TOTAL (B)</b>	<b>925,875</b>
<b>GRAND TOTAL (A + B)</b>	<b>6,745,475</b>



## Business Risk – GIDC & Gas Rates



Gas Rates Per MMBTU	FFC	FFBL	Engro*	FATIMA	Pak-Arab
<b>Supply Network</b>	<b>Mari</b>	<b>SSGC</b>	<b>SNGPL</b>	<b>Mari</b>	<b>SNGPL</b>
Feed Stock	PKR 302	PKR 302	USD 0.7	USD 0.7	PKR 302
Fuel Stock	PKR 1,023	PKR 1,023	PKR 1,023	PKR 1,023	PKR 1,023

\*Engro's Enven Plant is granted concessionary gas price (which accounts for ~65% of its production capacity). The base plant (connected to Mari) operates under standard gas rates.

- Fertilizer Industry uses gas as both feed stock and fuel (for electricity generation, steam).
- Under Fertilizer Policy, 2001, Engro and Fatima were granted gas on concessionary rates for a period of twenty years.

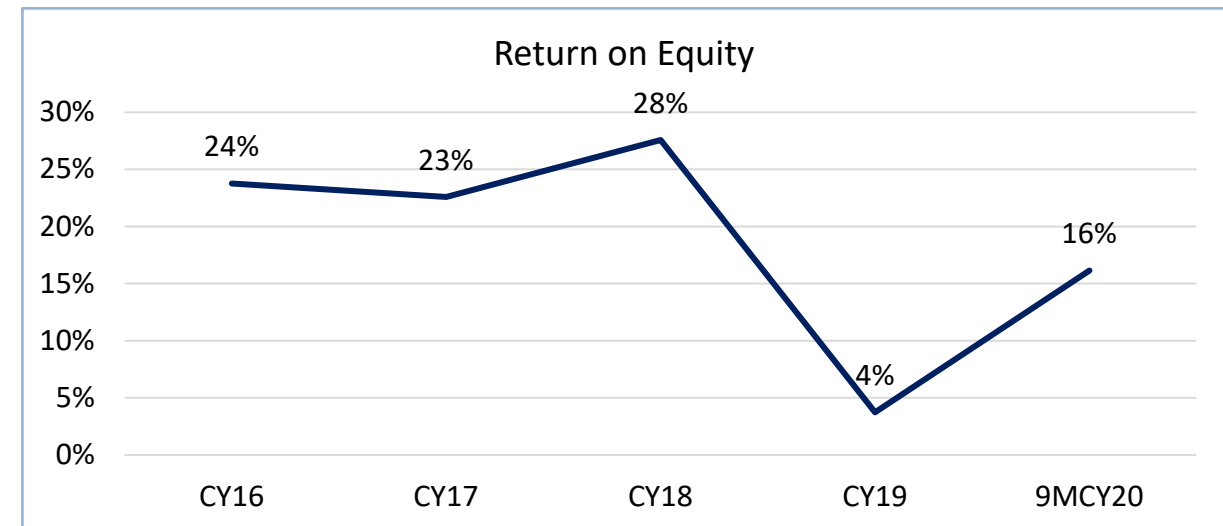
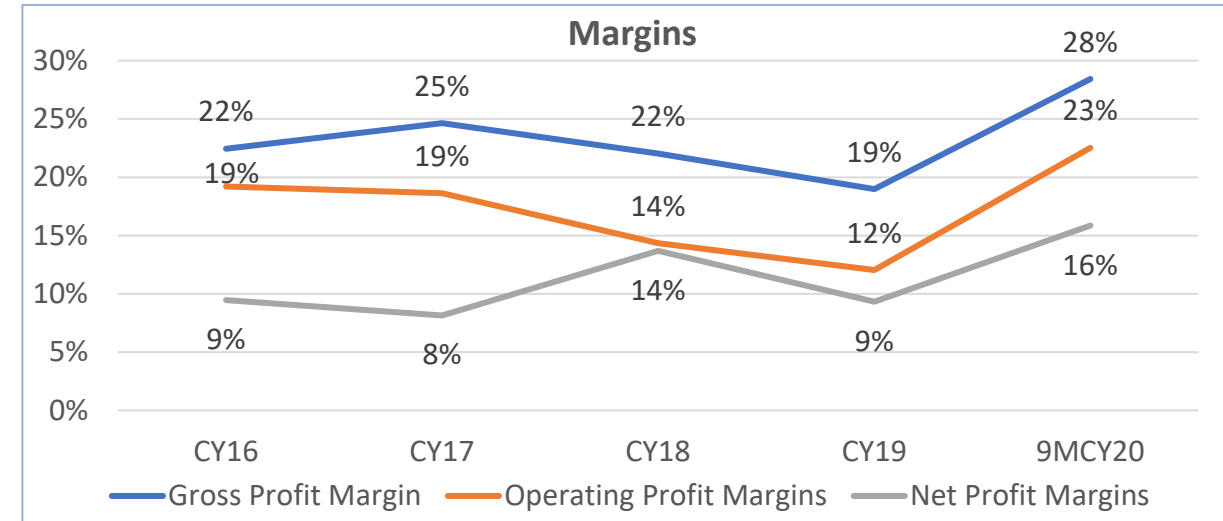
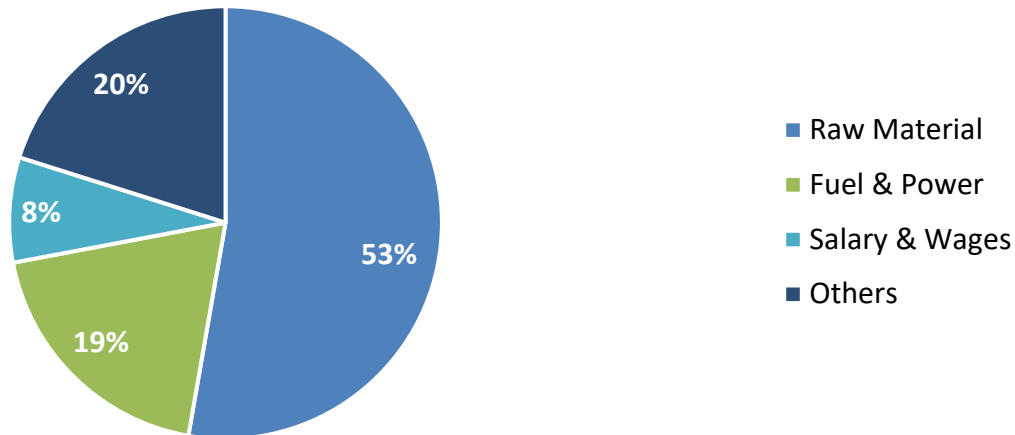
- The Supreme Court of Pakistan (SCP) announced its verdict pertaining to GIDC on 13<sup>th</sup> Aug, 2020. According to the decision, all Companies were directed to pay their outstanding GIDC amounts (as at 30<sup>th</sup> June, 2020) in 24 equal installments beginning 1<sup>st</sup> Aug, 2020.
- The SCP ordered the Companies to pay an outstanding GIDC amount of approx. PKR~194bln while the GIDC payable accrued in the books of the manufacturers is around PKR~110bln. This difference has arisen due to two factors (i) manufacturers who are granted concessionary gas rates have not accrued GIDC payable on feedstock, as GIDC is not applicable on concessionary gas and (ii) manufacturers claim that GIDC has not been a full pass through cost, and they have already been absorbing a portion of it in their costs. Interim Stay Orders have been obtained by the manufacturers for this matter.
- In a latest development, the GoP has granted relaxation to the Sector to extend the schedule of GIDC payments from 2 years to 5 years.

# Fertilizers

## Business Risk | Margins

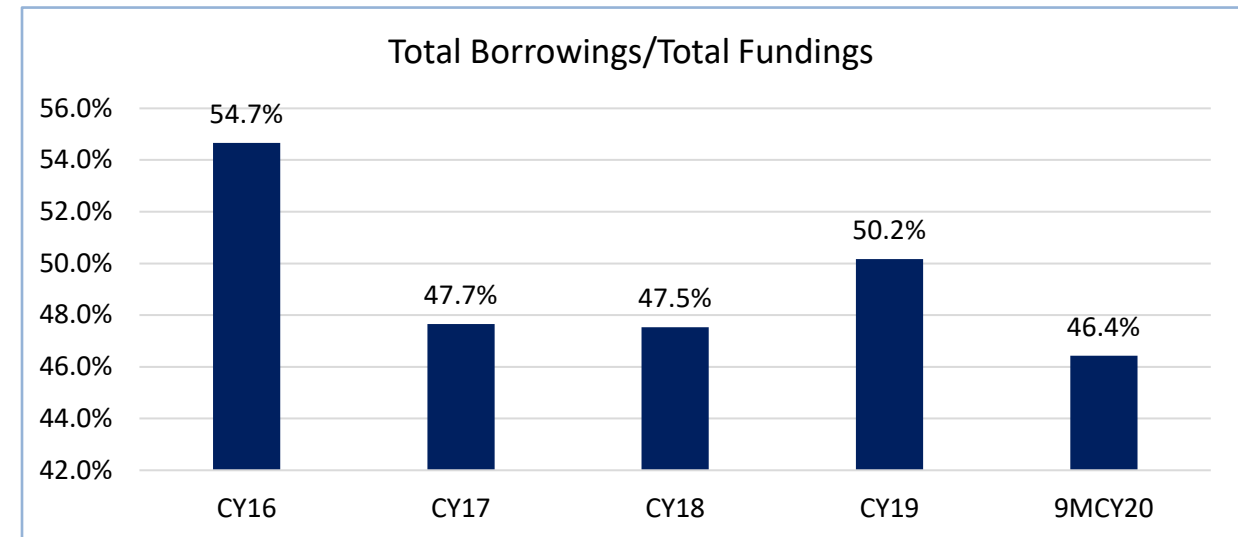
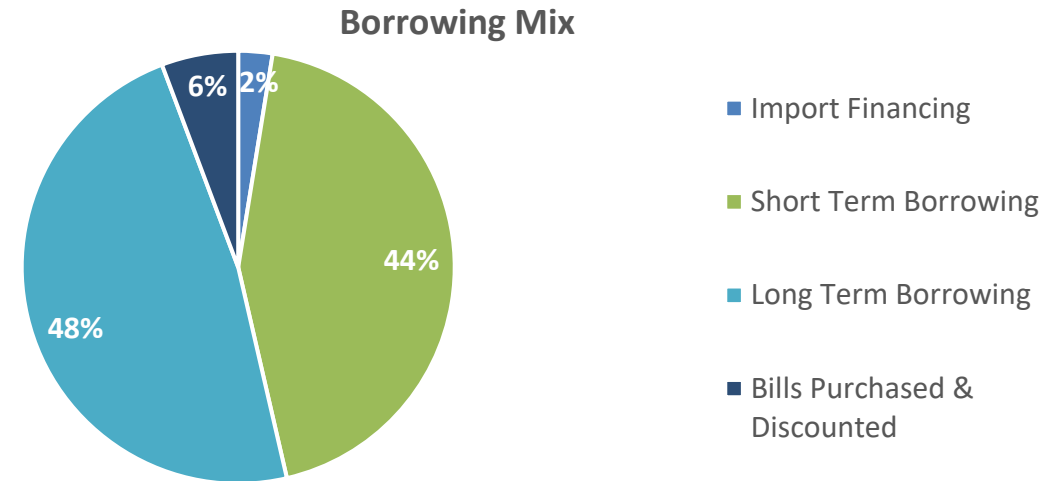
- With no change in gas rates, reduction in GIDC (translated into lower price and cost likewise) and low fuel costs and interest rates, the overall margins of the Industry registered a healthy growth on the gross and net levels in 9MCY20. Moreover, DAP trading/production also posted formidable results as DAP margins remained on the higher side due to increased price. The industry's gross margins increased to ~28% in CY20 (CY19: ~19%) and net margins improved to ~16% (CY19: ~9%).
- The largest contributor to the industry's direct cost is raw material (majorly natural gas) with a share of ~53%. Meanwhile, salaries and wages has a share of ~19% and fuel and power has a share of ~8% in total direct costs.

Cost Break-up



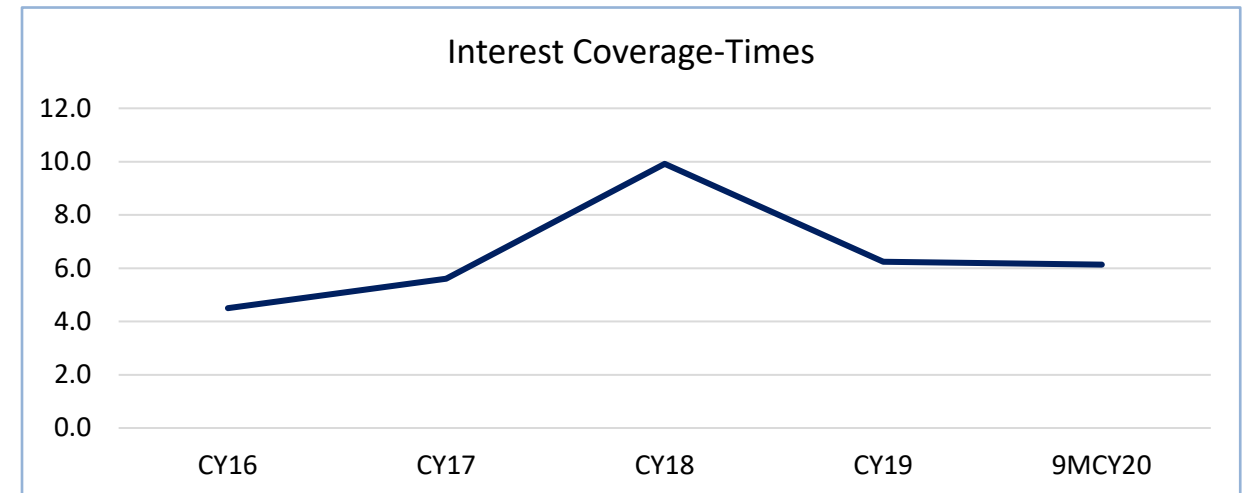
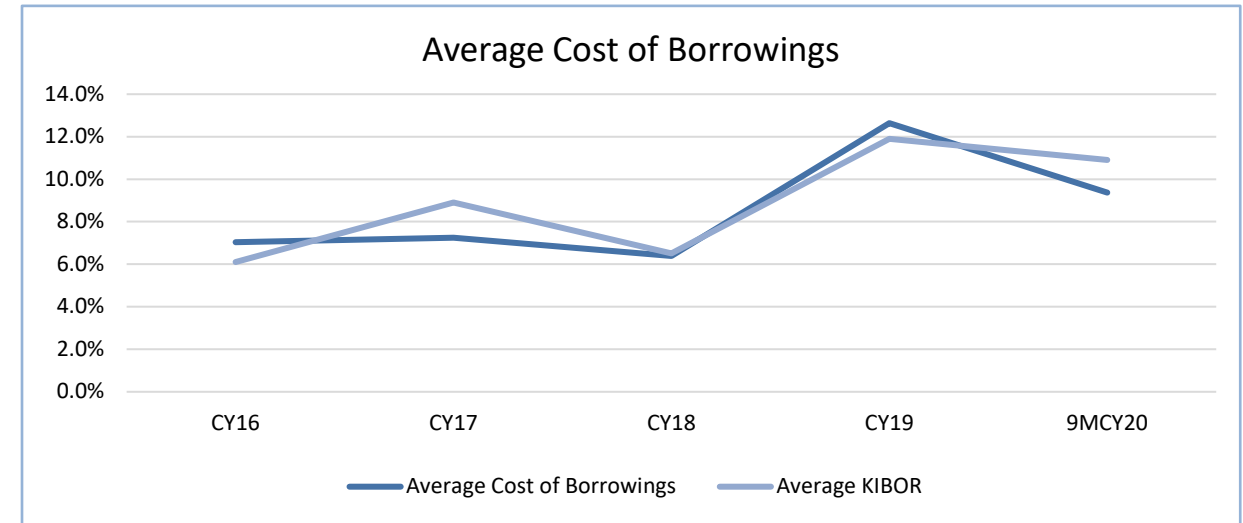
## Financial Risk - Borrowings

- The fertilizer industry's total borrowing as at End-November 2020 stood at PKR~124bln compared to PKR~137bln as at End-November 2019 (a decline of ~9% YoY).
- The Industry's borrowing mix is almost evenly distributed between long term and short term borrowings.
- Long term borrowings stood at PKR~59bln as at Nov'20 (Nov19: PKR~62bln) and accounted for ~48% of total borrowings.
- Short term borrowings also constitute a significant share at ~44% of total borrowings and stood at PKR~54bln during November 2020 (Nov19: PKR~66bln).
- The industry's leverage ratio has improved over the years from ~55% in CY16 to ~46% in 9MCY20. LTBs usually reflect a need for expansion, BMR or regular CAPEX. The Industry's average leveraging for 9MCY20 stood at ~46% having declined slightly from ~50% during CY19. With no major CAPEX on the cards, Sector leverage ratio is expected to improve further.



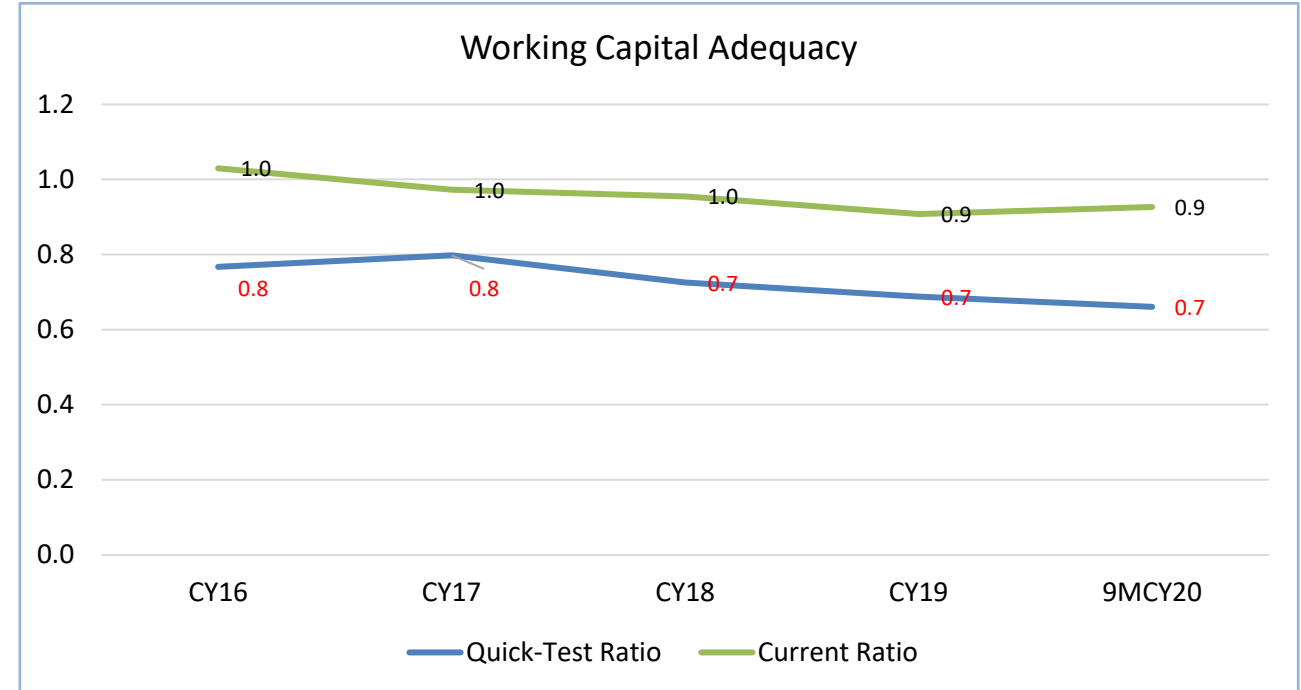
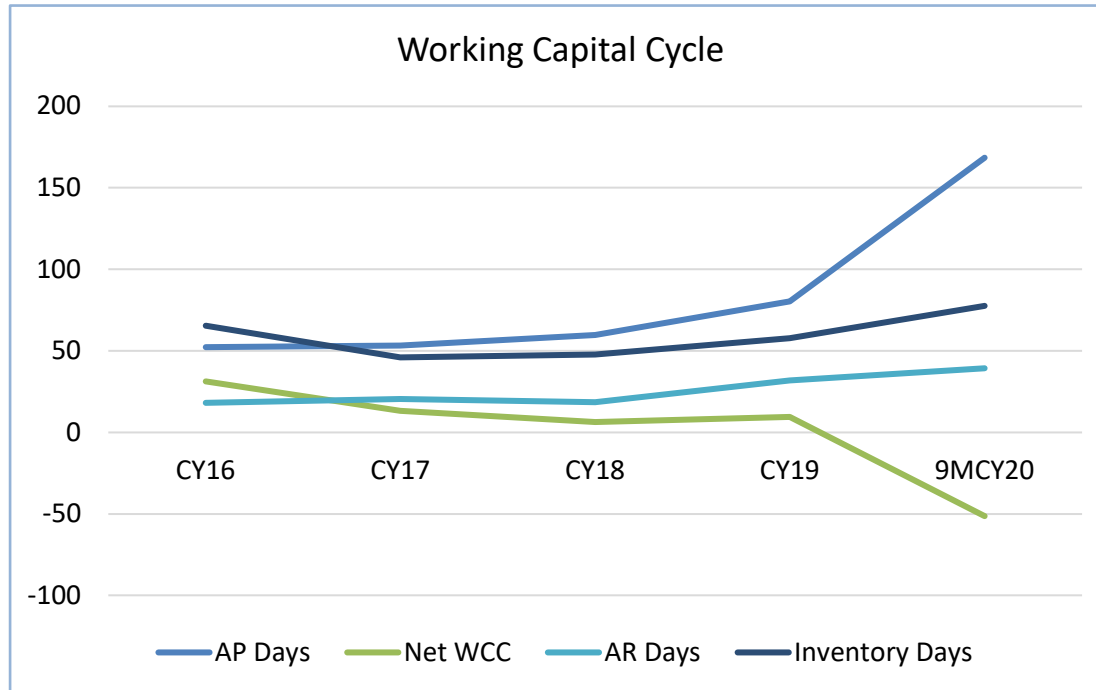
## Financial Risk – Borrowing Cost and Interest Cover

- The fertilizer industry’s average cost of borrowings has historically moved in line with changes in KIBOR. During CY20, the average cost of borrowing has decreased to ~9.4% from ~12.6% in CY19 largely due to the reduction of 625bps in the policy rate by the State Bank of Pakistan.
- Meanwhile, the industry’s interest coverage remained stable at 6.1 times (CY19: 6.2 times) as the decline in earnings during 9MCY20 was offset by the decline in finance costs due to reduction in policy rate.



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## Financial Risk – Working Capital



- The fertilizer industry’s net working capital cycle remained relatively stable from CY16-CY19 and stood at an average of 15 days. However, during 9MCY20, it reduced drastically and turned negative to -51 days. This was due to the impact of GIDC Payable, as the account payable days increased significantly.
- Meanwhile, there was only a slight increase in Inventory days, from 58 in CY19 to 78 in 9MCY20, and account receivable days, from 32 in CY19 to 39 in 9MCY20.
- In addition, the industry’s current ratio and quick-test ratio both remained constant at 0.9 and 0.7, respectively.



## Financial Impact – GIDC & Liquidity

GIDC Impact on Liquidity	FFC	Engro	FATIMA	FFBL	TOTAL
<b>GIDC Payable as at End-Sep'20</b>	62,643	19,581	5,821	22,200	110,245
<b>5 Years Payment Schedule</b>					
Free Cash Flows From Operations (FCFO)*	19,824	24,316	19,580	3,677	67,397
Annual Cash Outflow (GIDC)	12,529	3,916	1,164	4,440	22,049
Net FCFO	7,295	20,400	18,416	(763)	45,348
% Reduction in Annual FCFO	-63%	-16%	-6%	-121%	-33%
<b>Investment Book</b>	<b>74,413</b>	<b>6,969</b>	<b>1,104</b>	<b>26,189</b>	<b>108,675</b>
<b>Subsidy Receivable</b>	<b>6,961</b>	<b>6,368</b>	<b>1,838</b>	<b>3,160</b>	<b>18,327</b>
<b>Sales Tax Recoverable</b>	<b>10,719</b>	<b>2,763</b>	<b>5,771</b>	<b>8,716</b>	<b>27,969</b>

\*FCFO is calculated as EBITDA less taxes on 9MCY20 figures and prorated on annual basis

Investment book is as of March'20

Net FCFO = FCFO - Annual Cash Outflow

Subsidy Receivable & ST Recoverable are Dec'19 figures

- This analysis is based on assuming an amount of PKR~110bln payable by the fertilizer players.
- On an overall basis, an annual cash outflow of PKR~22bln is expected to occur in the Industry for consecutive five years considering a straight line payment mechanism. This reflects that almost ~33% of the free cash flows (FCFO) of the Industry are expected to be exhausted for the GIDC payments.
- Players with the highest GIDC accrual are expected to undergo the highest reduction in annual FCFO availability.
- Meanwhile, the Sector has a robust liquidity profile. While operational EBITDA is expected to take a dip, an Investment cushion of around PKR~109bln is easily sufficient to provide a shield against operational FCFO disruption.
- Moreover, the Sector has amounts due from the GoP as well in the form of Subsidies and Sales Tax Recoveries. Realization of such proceeds would also be of benefit to the Industry in keeping its liquidity profile intact.



# Fertilizers

## Porters 5 Forces Model

### POTENTIAL NEW ENTRY



- Low threat to Entry
- High Capital cost of plant development
- Limited supply of major raw material
- Shortage of Natural Gas
- Strong dealer network

### BUYERS



- Low power
- Prices mainly decided by large players



### SUPPLIERS



- High power
- Government supplies natural gas
- LNG based on imported price available as substitute
- No control over gas supply or international pricing

### COMPETITIVE RIVALRY



- Low
- Top 5 players make ~95% of the sector
- Large players enjoys economies of scale and lead pricing trend



# Fertilizers

## SWOT Analysis



## Outlook: Stable

### General:

- The Agriculture and food sector was least impacted by Covid-19 pandemic. Thus, its impact on fertilizer sector was minimum except some delays on the supply chain front. Urea and DAP's offtake increased by ~7% and ~20%, respectively, in CY20.
- Barring cotton, overall crop economics of the country are expected to improve in CY21 including growth expected in wheat, sugarcane and rice. This would lead to a higher demand for fertilizers.
- Availability of urea is expected to remain sufficient (see 'Urea outlook') for the remaining Rabi 2020-21 Season, while for DAP, though inventory is low, is expected to serve the demand for the ongoing season (see 'DAP outlook').
- Price of urea has witnessed a downward trend in CY20, the major factor being reduction in GIDC and no hike in gas prices. The prices have, however, increased in Jan'21 due to the decision by manufacturers for passing on the impact of disallowance of Input Tax up to 10% for unregistered dealers.
- DAP International Prices grew steadily in CY20 and the same was likewise reflected in the Local Prices. The materialization of GoP subsidy of PKR~1,000/50 Kg of bag is expected to bring the prices down, going forward.

### Developments:

- The key development for the Sector is the timeline for implementation of GIDC verdict. Since sector players have obtained an Interim Stay Order on the disputed amount, the actual out-turn of the matter is yet to unfold.
- DAP prices are expected to reduce going forward, while Urea Prices may increase subject to increase in gas prices.

## Bibliography

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- Pakistan Economic Survey
- State Bank of Pakistan (SBP)
- Pakistan Stock Exchange (PSX)
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- Dawn News

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