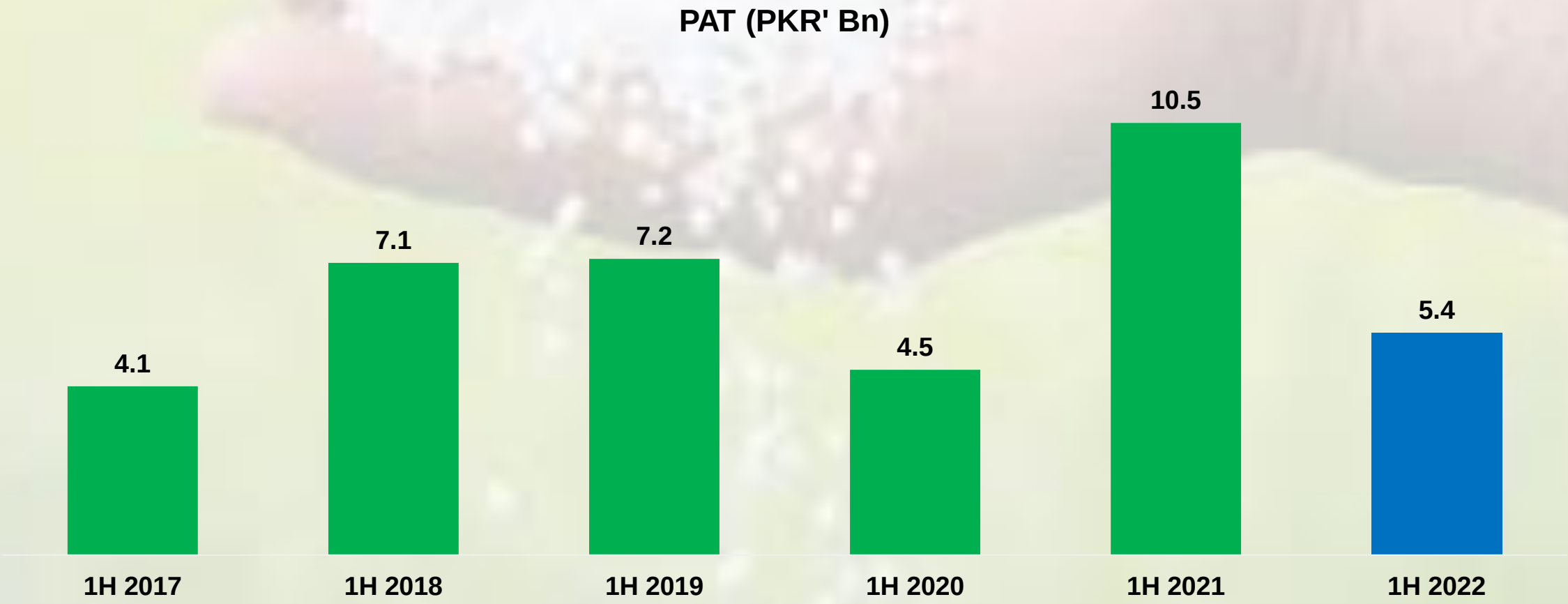
Analyst Briefing
1H 2022

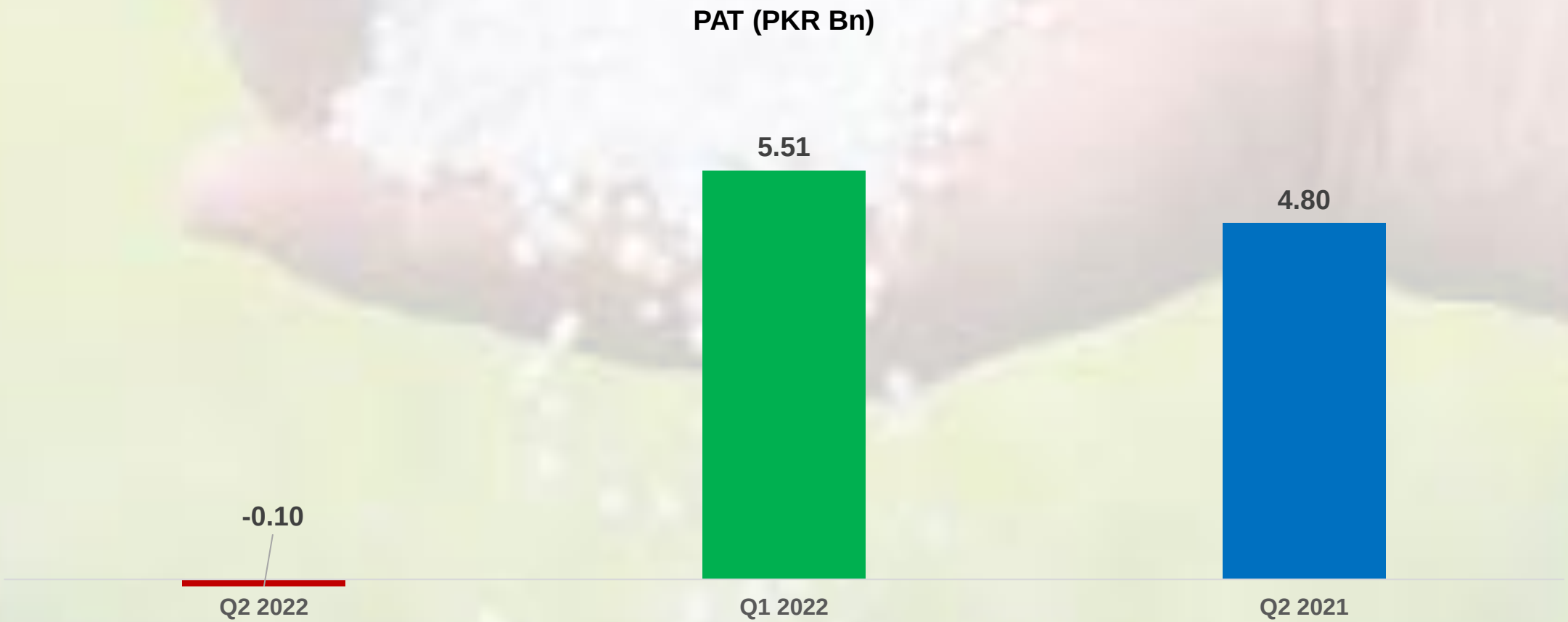
EFERT Highlights

Half Yearly Profitability analysis

EFERT has announced a dividend of **PKR 5.5/Share** for 1H 2022 Vs **PKR 8.0/Share** in 1H 2021

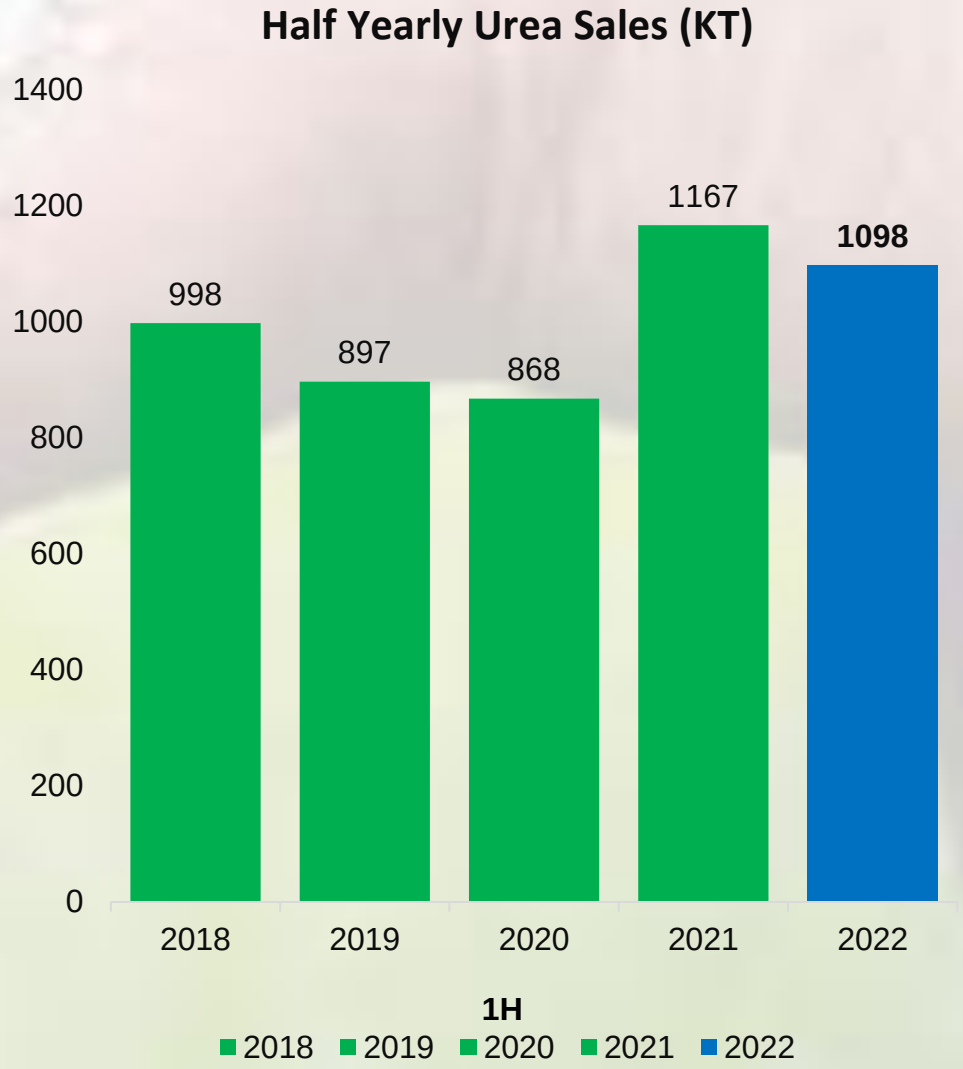


Our profitability through the quarters…



Urea Production & Sales for 1H





ENVEN Plant Trip

- Out of the **two fertilizer plants** operated by the Company, **ENVEN plant** recently faced an **unscheduled breakdown** which has been **successfully resolved.**

- We have now concluded that the breakdown resulted in an **estimated production loss of around 111KT.**

Agri Sector Performance

Positive Momentum In Agri Sector witnessed due to rise in commodity prices

Earning from Wheat increased by 18% while decreased in Sugarcane by 3% YoY. Cotton and Rice are expected to see a rise in earning of 20% and 19% respectively due to better expected commodity prices.



Wheat	2020-21	2021-22
Total expense (PKR)	38,632	45,926
Fertilizer Expense (PKR)	7,334	12,000
Yield (Maund/Acre)	33	33
Grain Price (Rs/Maund)	1,770	2,150
Earning (PKR/Acre)	**32,978**	**39,049**

Wheat:

- Support price was fixed at Rs 2200/maund.
- Farmers received grain price at Rs 2150/maund (1 Kg extra/Q by procurement agencies as trash and dirt cut).
- **Per acre earning improved by 18.4% YoY.**



Sugarcane	2020-21	2021-22
Total expense (PKR)	89,100	99,485
Fertilizer Expense (PKR)	9,950	12,500
Yield (Maund/Acre)	725	770
Cane Price (Rs/Maund)	250	245
Earning (PKR)	**92,200**	**89,200**

2018-19: 41,200

Sugarcane:

- In 2021-22, support price were Rs 225/maund and Rs 250/maund in Punjab and Sindh respectively.
- Yield of cane was better than last year.
- Due to increase in cost of production, **earning dropped by 3.3% YoY.**



Cotton	2021	2022P
Total expense (PKR)	56,281	77,483
Fertilizer Expense (PKR)	10,804	16,000
Yield (Maund/Acre)	20.5	21.0
Phutti Price (Rs/Maund)	6,000	7,500
Earning (PKR)	**66,719**	**80,017**

Cotton:

- 2021 was good for Cotton revival in terms of productivity and price.
- In 2022, start season price was +11000/maund but following NY price trend it softened in domestic market.
- Expected average price of Phutti is Rs 7500/maund and earning is **expected to go up by 20% YoY**
- NY Cotton#2 futures for Oct are 95 cents/lb. Vs 89 cents/lb. LY (18-07-2022).
- Current price at Karachi Cotton Market are Rs 15540/ 40 Kg Vs Rs 13,825/40 Kg LY).



Rice - Basmati	2021	2022P
Total expense (PKR)	49,219	68,160
Fertilizer Expense (PKR)	9,142	16,250
Paddy Yield (Maund/Acre)	33	34
Paddy Price (Rs/Maund)	2,350	3,000
Earning (PKR)	**28,330**	**33,840**

Rice- Basmati:

- During 2021, Yield was bit lower but price of paddy remained firm.
- In 2022, cost of production including fertilizers and tillage has significantly gone up
- Due to high export demand, paddy prices are expected to see upward trend.
- Farm earning is expected to **improve by 19.4% YoY.**

Sudden rise in prices of inputs especially diesel and fertilizers has significantly increased cost of production for the farmer. Urea is the only commodity available at discounted price over Int'l price.

Even Post Price Increase Domestic Urea at a Discount of over 70%

FOB Price*
USD 605/T

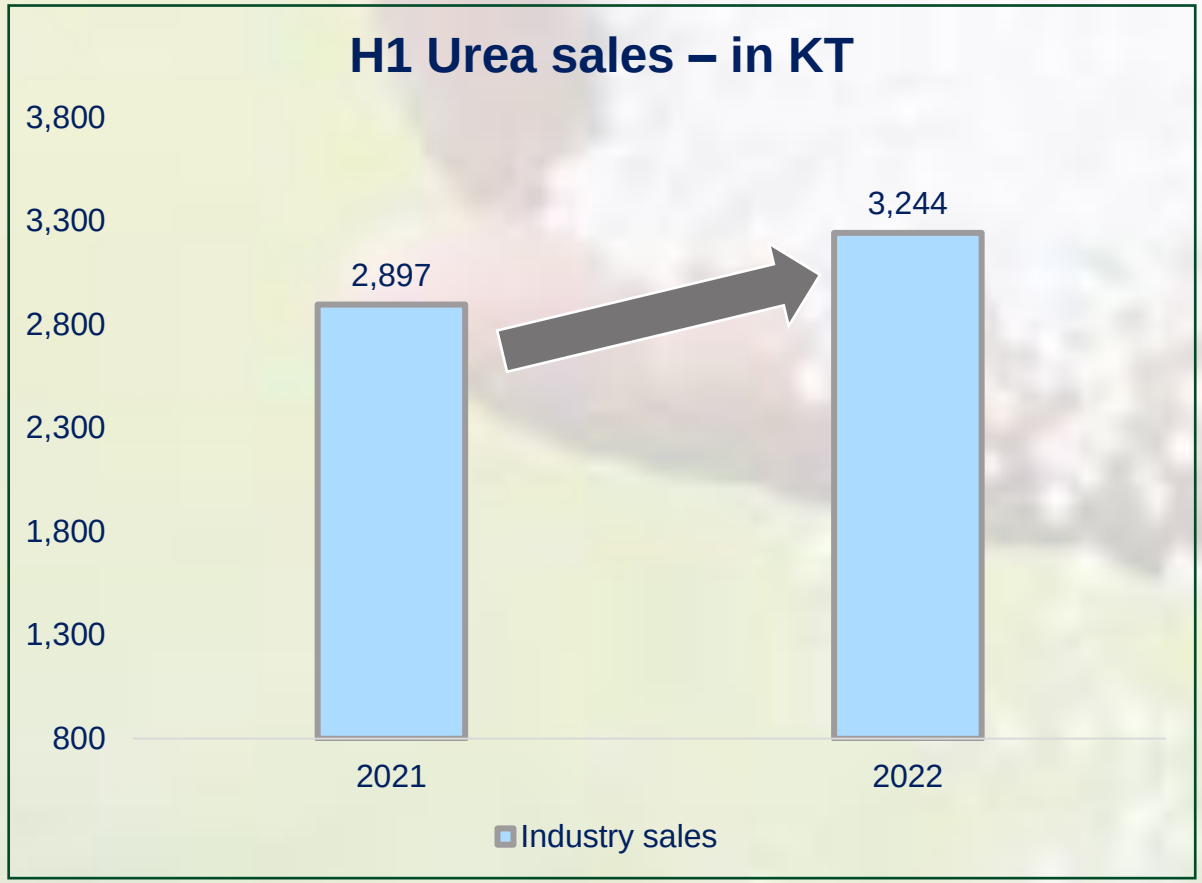
CFR Price
USD 634/T

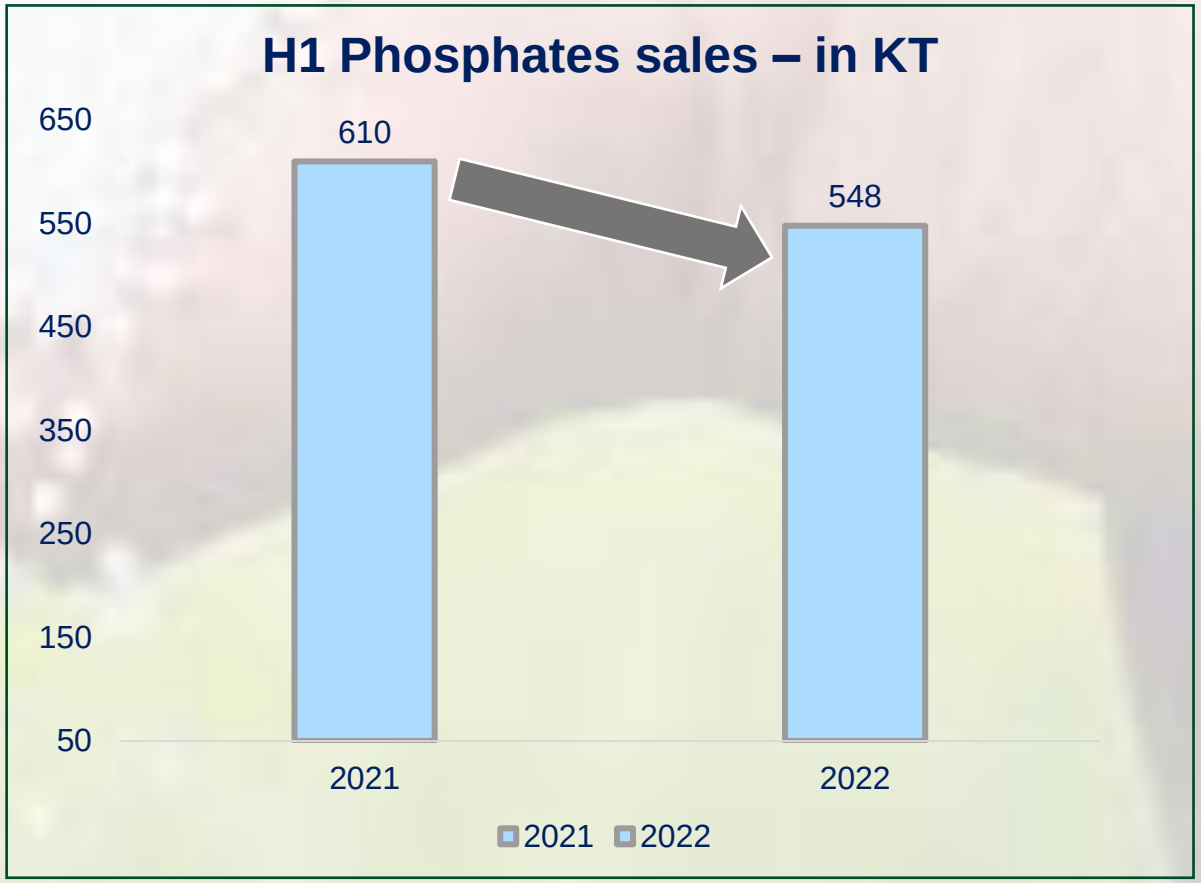
	As of June 30, 2022		As of July 1, 2022
Landed Equivalent MRP	PKR 8,415/Bag**	Post GST Exemption	PKR 8,464/Bag***
Local Urea MRP	PKR 1,850/Bag	Post PKR 350 increase per bag	PKR 2,200/Bag
Domestic Discount on Urea	78%		74%

*Data Source: CRU weekly report average
**25% incidentals have been added as per NFDC methodology & output GST impact taken at 2%
***Finance Act 2022 has exempted "Fertilizers" from the levy of sales tax w-e-f July 01, 2022. Consequently, input taxes levied on to gas and other suppliers of goods and services is not claimable and now becomes a cost. Accordingly, GST of 13% has been added to incidentals & output GST of 2% has been excluded from the computations.
~PKR 206 FX rate

Industry
&
EFERT Business Performance

Increasing price disparity impacting fertilizers sales

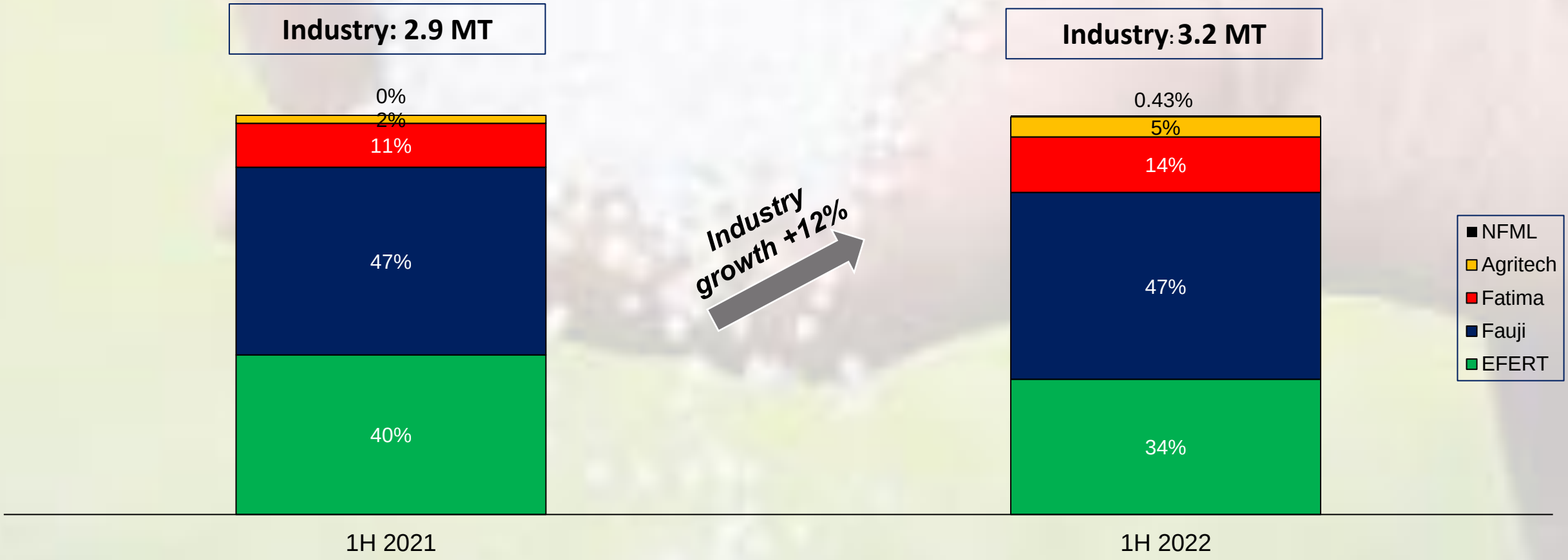




Urea industry has grown by 12%

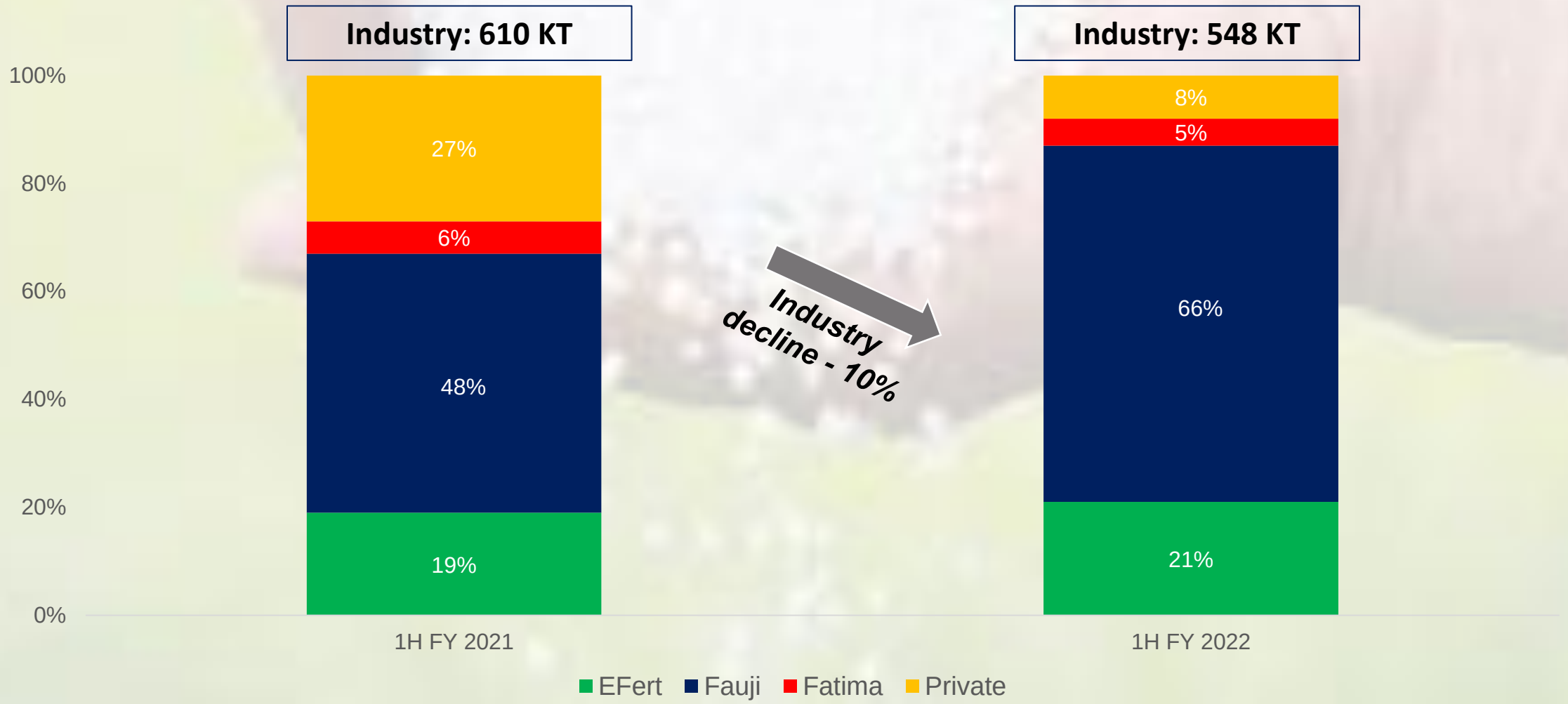
Phosphates industry has declined by of 10%.

Industry & Market Share – Urea

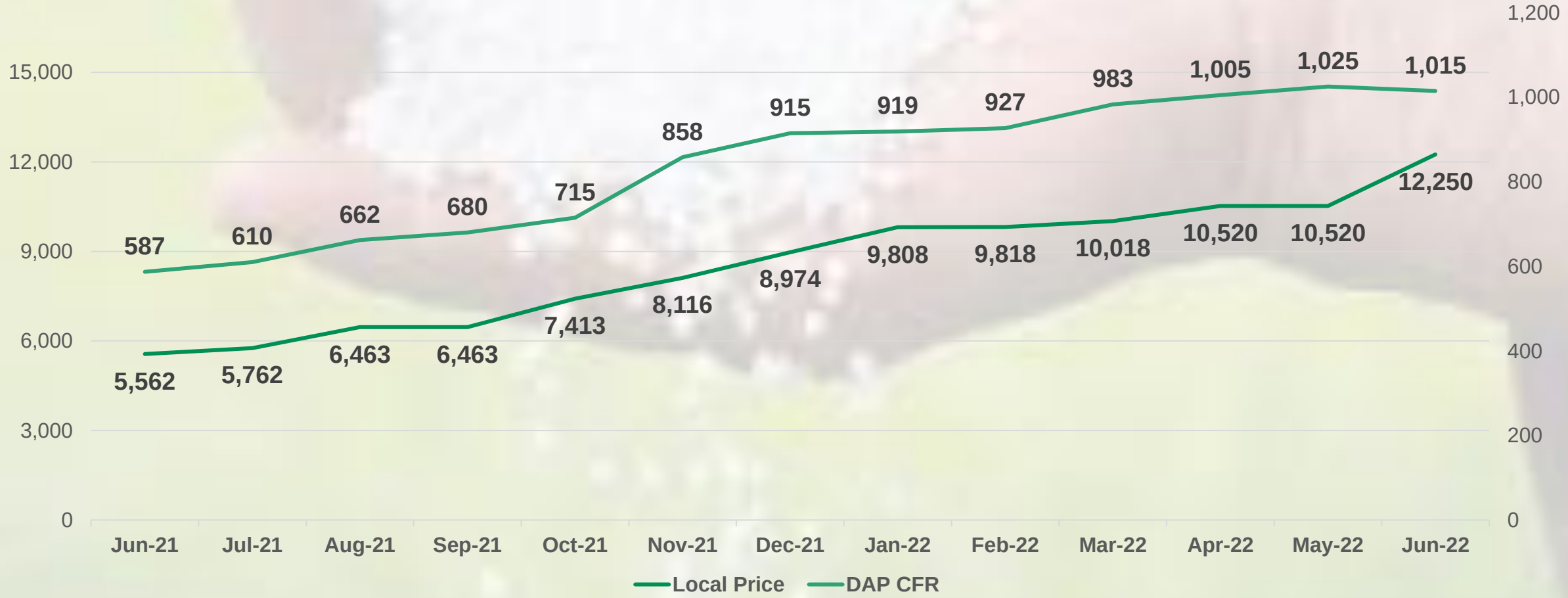


- Growth in demand of urea has resulted from improved farm economics coupled with increasing price disparity of urea when compared with other fertilizers.
- RLNG plants remained mostly operational in 1H 2022.

Industry & Market Share - Phosphates



International DAP prices have been on a constant rise



** Sources: CRU (DAP Pakistan CFR Prices)*
Local Prices: EFERT DAP Multan Muzaffargarh DTP Prices

Major Enactments & Necessary support required from Government

Major Enactments and Changes

1 Fertilizer Exemption from 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 70 Bn.** as of June whereas **EFERT's** share is **Rs. 12.4 Bn.** (Dec 21: Rs. 8.95 Bn).

2 Super Tax on High Income Earning Persons

- **"Super tax on high income earning persons" @ 10%** has been levied on taxable income exceeding Rs 300M on Fertilizer sector retrospectively on Financial Year 2021 (Tax Year 2022) – Prior year tax charge of **Rs 3Bn** recorded.
- **Further, "Super tax on high income earning persons" @ 4%** has been levied on income exceeding Rs 300M for Financial Year 2022 (Tax Year 2023) and onwards. **YTD June** current tax charge of **Rs 594m**
- The impact of the Super tax has **not been passed** onto the customers.
- Furthermore, deferred tax charge amounting **to PKR 1.6Bn, due to 4% increase in tax rate** (owing to super tax) on Tax Year 2023 and onwards has been recorded.

3 Tax implication on Seeds business

- In Jan 2022, through Finance Supplementary Act, 2022 (the Act), **sales tax was levied on sale of seeds**(previously exempt). Sales tax was **chargeable at 17%** and **3% further tax**, wherever applicable.
- Through Finance Act 2022, effective July 01, 2022, **Seeds business** has again been made **exempt** from sales tax.

Major Enactments and Changes

4 Capital gain tax

- Capital gain tax at reduced rate (15%) has been abolished and **capital gains are now taxed at the corporate 29%.**
- Due to the increased tax rate, **additional tax on debt securities of PKR 118 Mn** estimated on annual basis.

5 Increase in Tax on Commercial importers

- **Commercial importers are now to be taxed at the rate of 3.5%** on import value (previously on 2%) .
- Due to the increase tax rate, **additional tax of Rs. 92 per bag for DAP**, which will be passed through in pricing.

Support from Government required

1 Expiry of Concessionary Gas

- As per decision of ECC **"***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.

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 June 2022 **– Rs. 6.5 Bn,** outstanding **since 2018** *(represent gross amount before any accounting adjustment).*

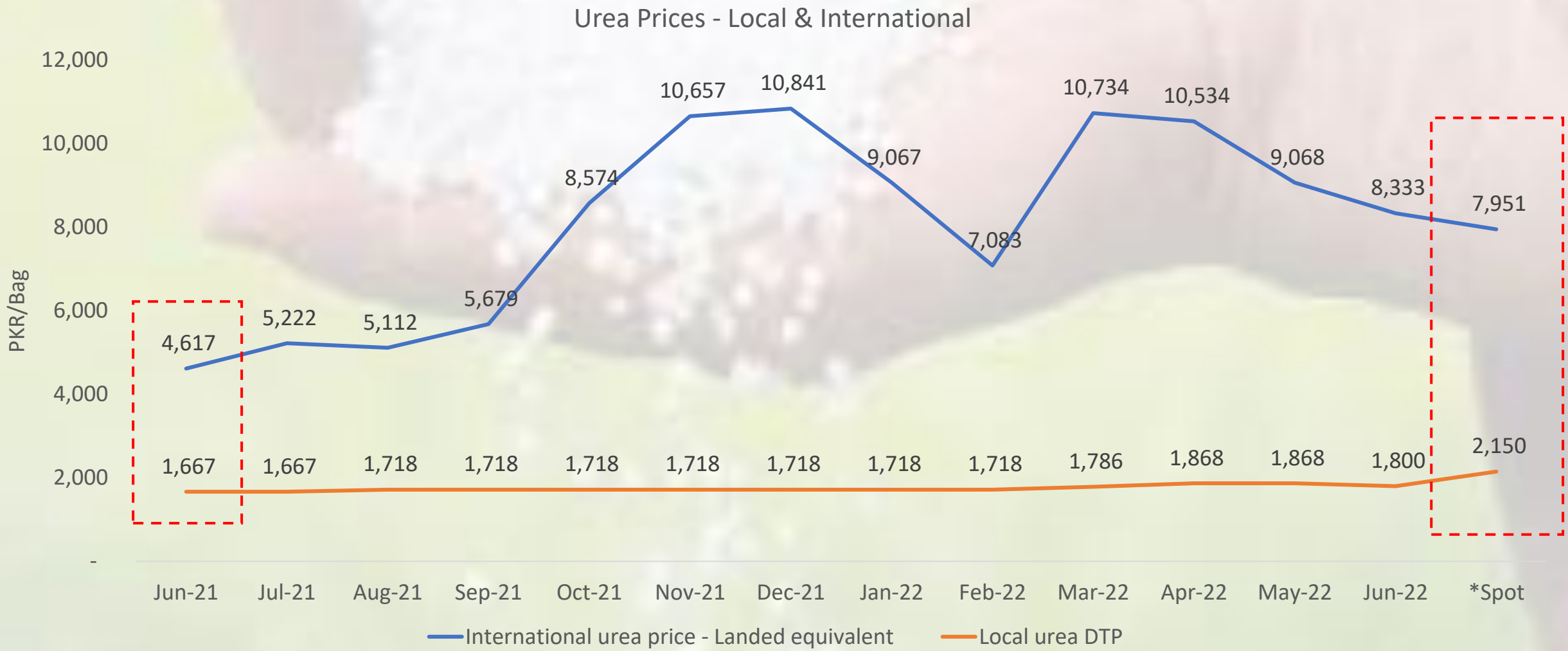
Special Items For Discussion

S. No	Topic
1.	Fertilizer Industry’s contribution towards the Nation
2.	Fertilizer Industry is internationally competitive and will thrive in a fully deregulated environment without any subsidy

1

Fertilizer Industry’s contribution towards the Nation

Fertilizer industry has shielded the farmers from international urea price rise



**Spot price is as per week ended 15th July.*

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



Gas price benefit of ~**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 to provide significant import substitution and benefit to farmers

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

~USD 4.1 Billion**

~USD 32/bag

Annualized benefit to domestic farmers based on Spot international prices

~PKR 840 Billion*

~PKR 6,565/bag

Delta between international price & local urea prices as of June 30, 2022, multiplied by expected annual production of 6.4MT.

***International Spot price of USD 634/ton (CFR) assumed with expected local annual production of 6.4MT.*

Fertilizer industry to save farmers additional burden of PKR 940 Bn in 2022

If Urea is priced at import parity, farmers will have to bear significant additional burden

*Average Import Parity price		**Average Local MRP		Per bag Benefit
Rs 9,187/bag	–	Rs 1,843/bag	=	Rs 7,344/bag

As per Jan – June avg. → PKR 940 Bn

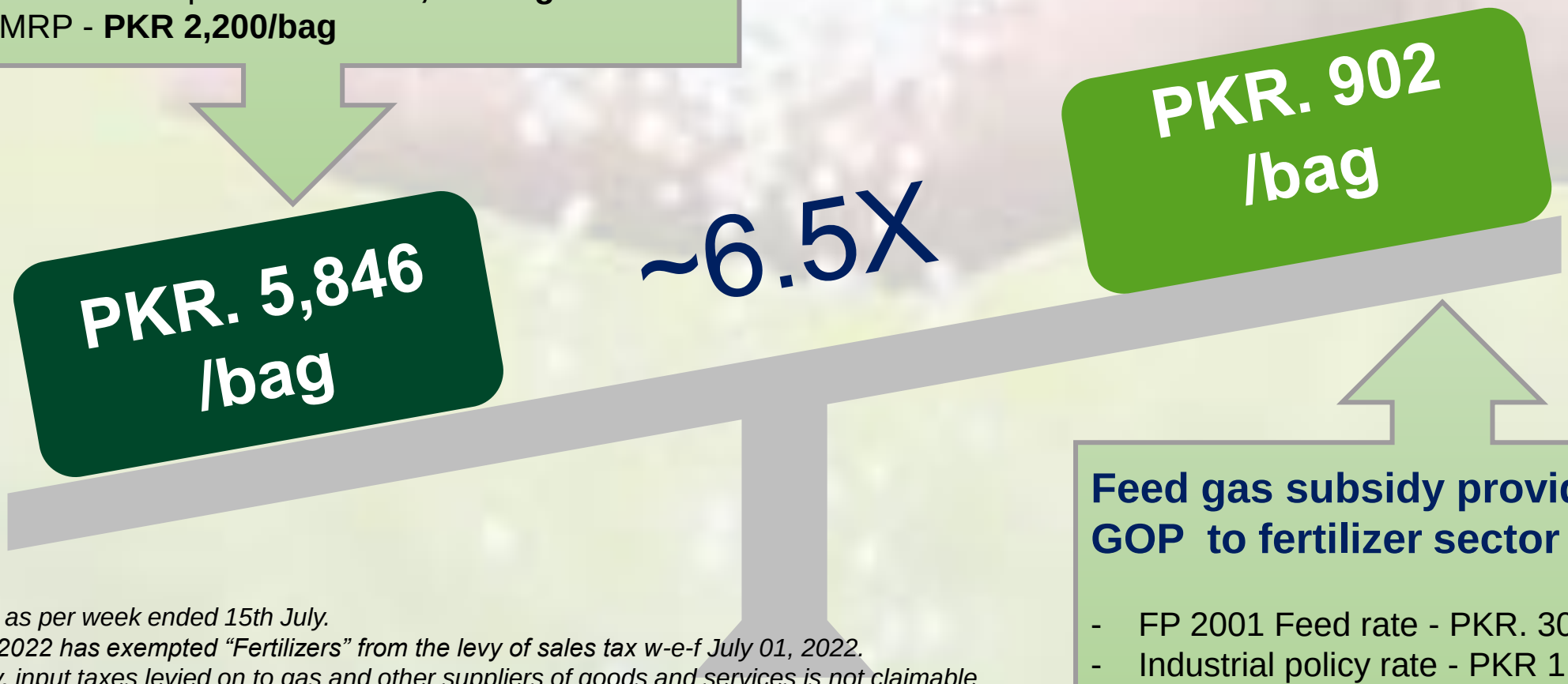
As per June End → PKR 840 Bn

*Average International MRP for period Jan – June 2022
**Average Local MRP for period Jan – June 2022.
Assumes 6.4 MT sales for 2022

Benefit passed through urea pricing is almost 6.5X on spot basis

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

- International MRP prices - **PKR *8,046/bag**
- Local MRP - **PKR 2,200/bag**



Feed gas subsidy provided by GOP to fertilizer sector

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

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2

Fertilizer Industry is internationally competitive and will thrive in a fully deregulated environment without any subsidy

What deregulation would mean

	Industry Dynamics	
	Existing Structure	De-Regulated Industry
Urea Pricing	Pricing set by industry players at a significant discount to imported urea	Pricing of urea to be based on Import Parity or Industry WACOG pass through
Gas Pricing	Largely at FP 2001 policy, with some players offered PP 2012 and subsidized LNG rates	Fertilizer Industry weighted average cost of gas –WACOG (Mari wellhead, PP and RLNG)
International Trade	Government does not allow import of Urea by private players and has also placed restriction on exports	Imports only allowed through the Government if needed and exports allocated by Government based on FRC review

Impact of Deregulation on key stakeholders

Key Stakeholders	Likely Outcome of Deregulation	Possible Results/Actions
Government	Higher revenue through taxes and gas prices	Improved fiscal balance and reduced GDS
Farmers	Higher urea prices for farmers	GOP may implement smart subsidy mechanism for small farmers
Fertilizer Companies	Higher PAT for Fertilizer companies	

Fertilizer policy 2022-Proposal

Key components of new fertilizer policy proposal

- No gas subsidy –Uniform gas rate
- Urea selling price to remain fully deregulated
- Export of excess urea capacity
- Encourage debottlenecking of indigenous gas-based facilities
- Encourage gas efficiency projects


EFERT- Our Reason for Being ?


a promise of growth


we grow nutrition
1/3rd
wheat crop served
37%
rice crop served


we grow taste
40%
potato crop fields served


we grow fashion
40%
cotton crops served


we grow prosperity
PKR
5 Bn
PAT 2011
PKR
17 Bn
PAT 2018


we grow sustainability
USD
600 Mn
annual import substitution


we grow possibilities


crop protection
2x
peak vol. of certain vs competition
5x
pace of growth vs competitors


agri-logistics
4x
fleet growth by 2021
790
3rd 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