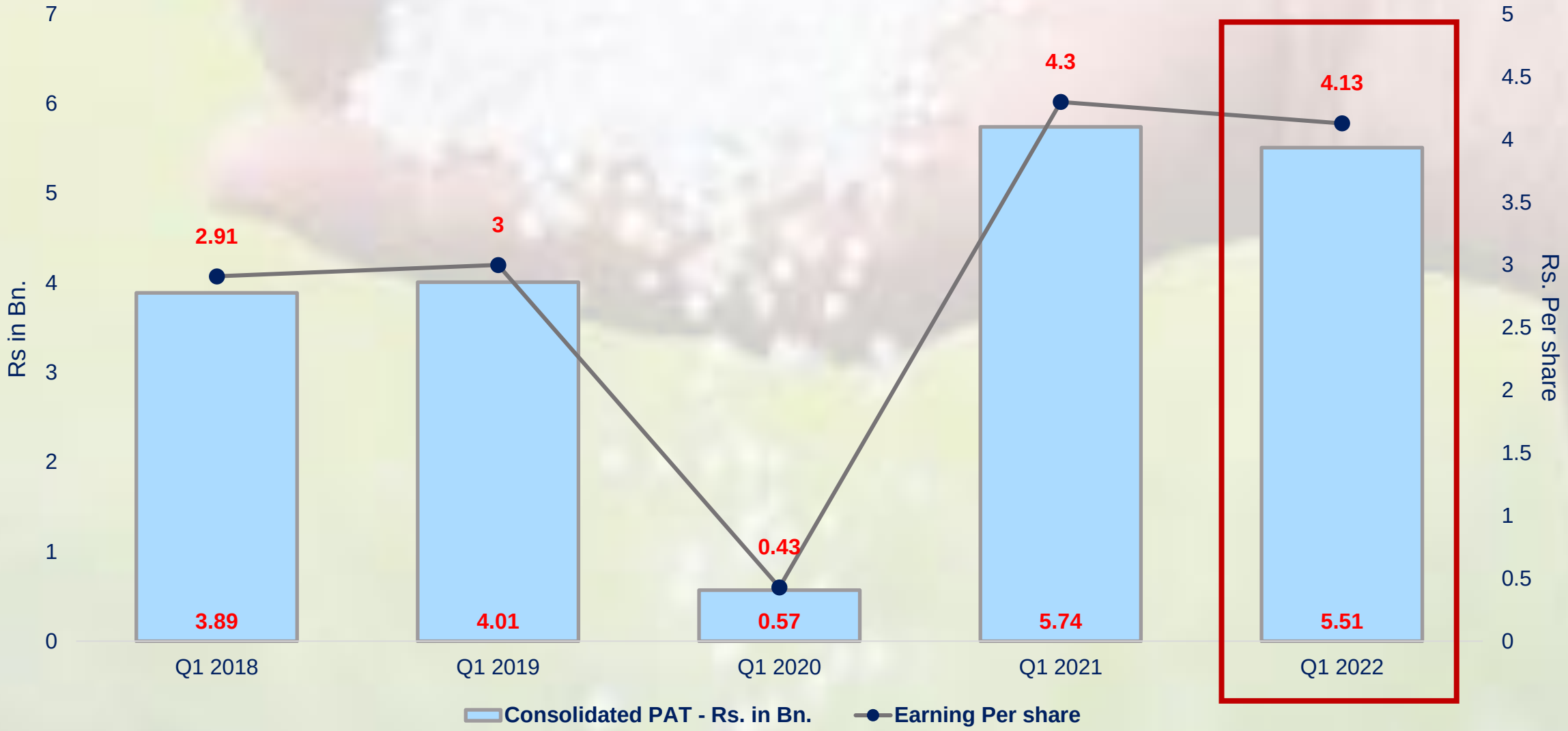
Analyst Briefing
Q1 2022

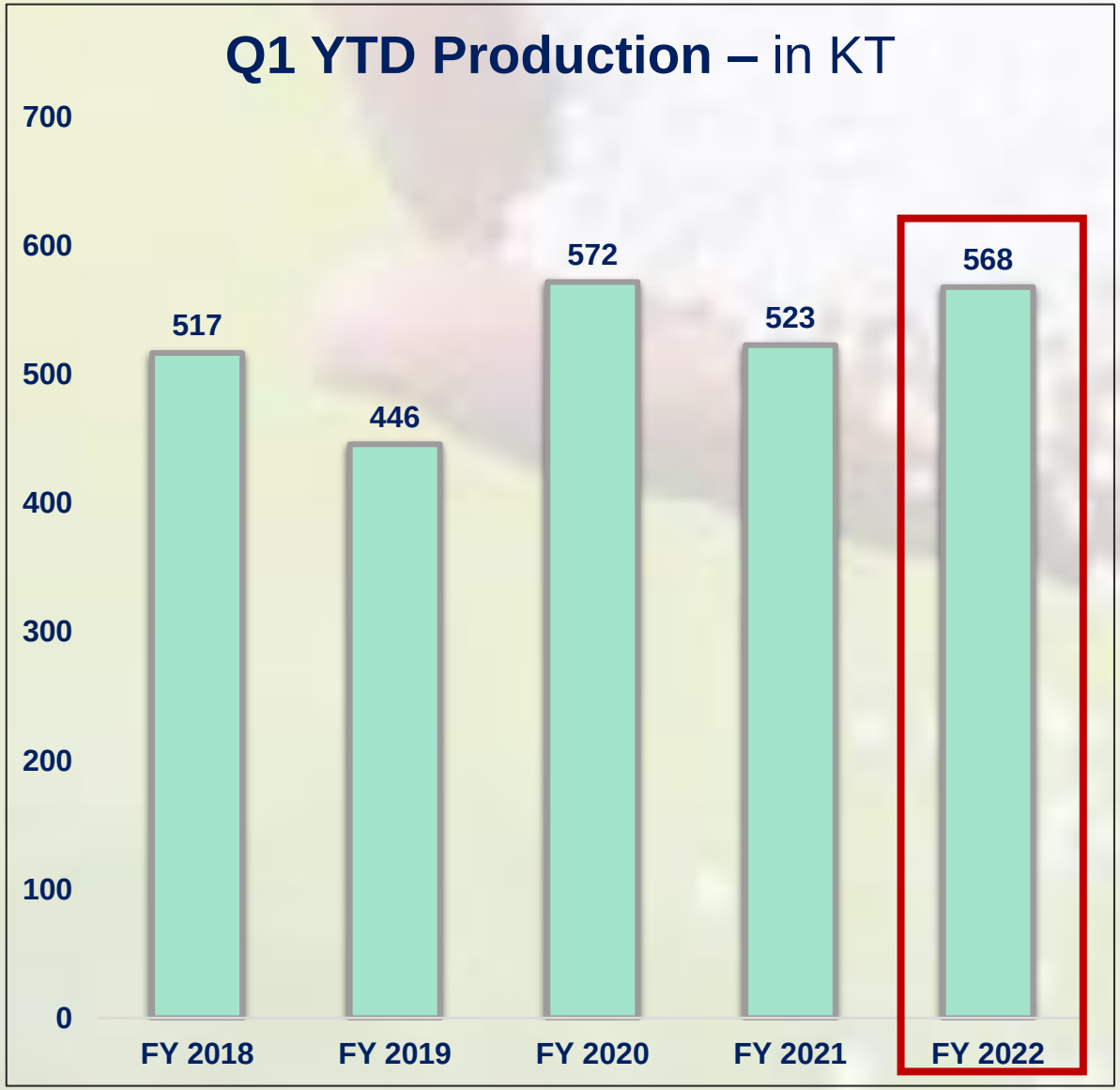
EFERT Highlights

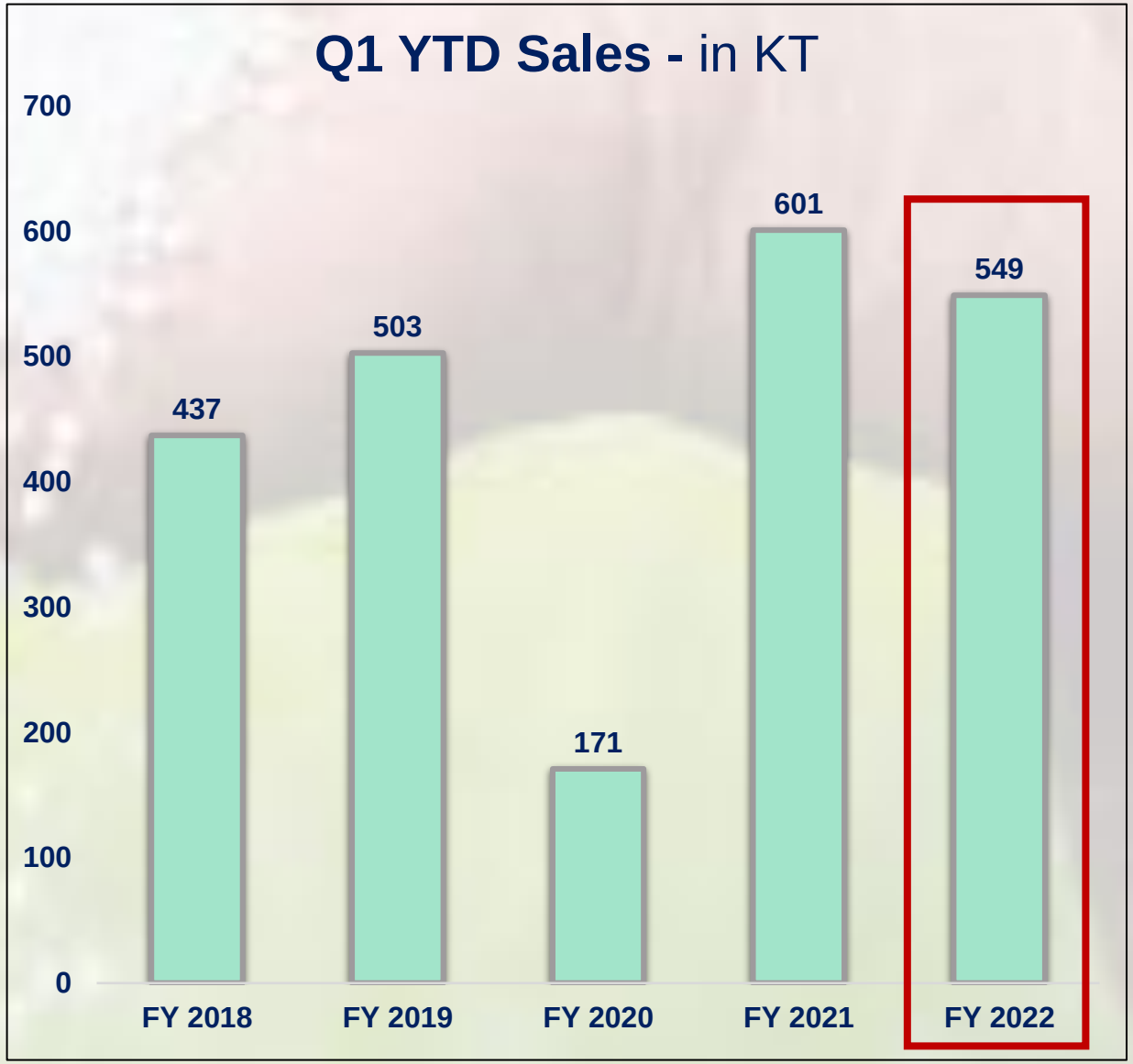
Quarterly Profitability analysis

EFERT has announced an interim dividend of **PKR 5.5/share** for Q1 2022 v/s the PKR 4/Share in Q1 2021.



EFERT Urea Production and sales





Agri Sector Performance

Government Policies Have Ensured Positive Momentum In Agri Sector

Earning from Wheat and Sugarcane increased by 19% & 3% respectively; Cotton is expected to see a rise of 24% in earning while Rice will be slightly lower (by 1%) due to increase in cost of production



Wheat	2020-21	2021-22P
Total expense (PKR)	38,632	45,811
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**	**39,164**

Wheat:

- **Support price** increased to Rs 2200/maund in both Punjab and Sindh.
- Farmer is expected to get Rs 2150/maund due to expected forced procurement by Govt. agencies under section 144 and freight upto to procurement center.
- Per acre earning expected Rs 39 K (19% up YoY).



Sugarcane	2020-21	2021-22E
Total expense (PKR)	93,675	101,750
Fertilizer Expense (PKR)	9,950	12,500
Yield (Maund/Acre)	725	725
Cane Price (Rs/Maund)	250	265
Earning (PKR)	**87,600**	**90,400**

Sugarcane:

Support price in Punjab was fixed at Rs 225/maund and in Sindh at Rs 250/maund.

- Due to shortages of cane, the prices remained above support price during major part of harvest season.
- Per acre earning improved to 90.4 K (3.2% up YoY).



Cotton	2020	2021	2022P
Total expense (PKR)	46,774	56,506	64,657
Fertilizer Expense (PKR)	8,360	10,804	15,350
Yield (Maund/Acre)	15.7	20.5	21.0
Phutti Price (Rs/Maund)	4,200	6,000	7,000
Earning (PKR)	**19,166**	**66,494**	**82,343**

Cotton:

- 2021 was good for Cotton revival in terms of productivity and price.
- Going forward cotton prices are expected to remain firm in domestic market and price for farmer estimated at 7000/maund resultantly earning to improve by 25% to 82.3 K
- NY Cotton#2 futures for July'22 are 134 cents/lb. Vs 79 cents/lb. LY (06-04-2022).
- Karachi Cotton Market prices are also at record level (Rs 21970/40 Kg vs Rs 11,789 LY).



Rice - Basmati	2020	2021	2022P
Total expense (PKR)	42,547	48,194	54,262
Fertilizer Expense (PKR)	6,805	9,142	14,238
Paddy Yield (Maund/Acre)	34	33	34
Paddy Price (Rs/Maund)	2,100	2,350	2,450
Earning (PKR)	**28,850**	**29,360**	**29,040**

Rice- Basmati:

- During 2021, Yield was bit lower but price of paddy remained firm and earning improved by 1.8% to 29.3K.
- Due to export demand,, paddy prices in the market have seen upward trend
- In 2022, increase in cost of production will suppress the earning despite expected good paddy price. Farm earning is expected at 29 K/Acre (1% lower YoY).

Following the momentum built over last year, **improved farm economics and availability of urea at significantly discounted prices compared to global levels.**

International Urea Prices at a Premium of 84% (Mar-22)

FOB Price*
USD 975/T

CFR Price
USD 1,005/T

Landed Equivalent MRP
PKR 11,741/Bag**

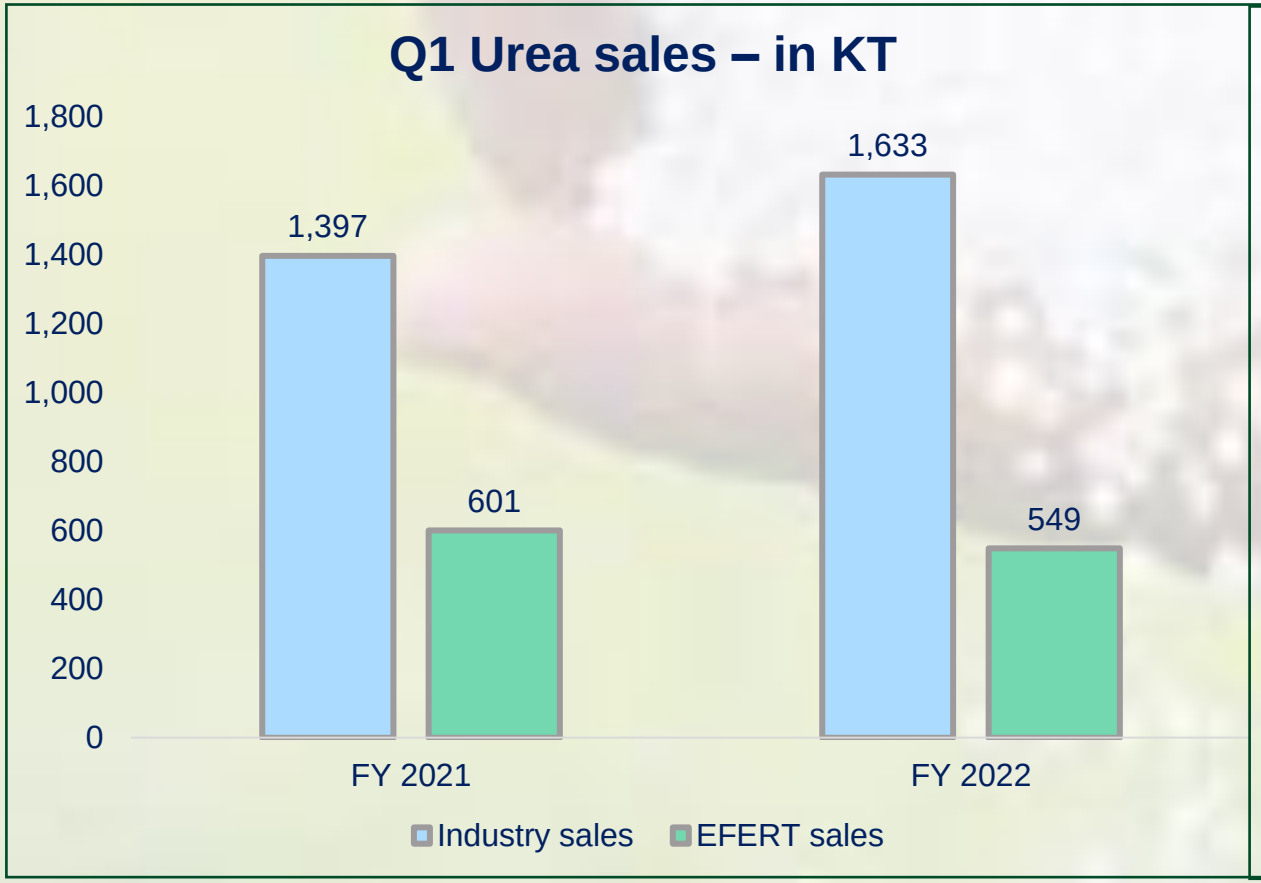
Local Urea MRP***
PKR 1,918/Bag

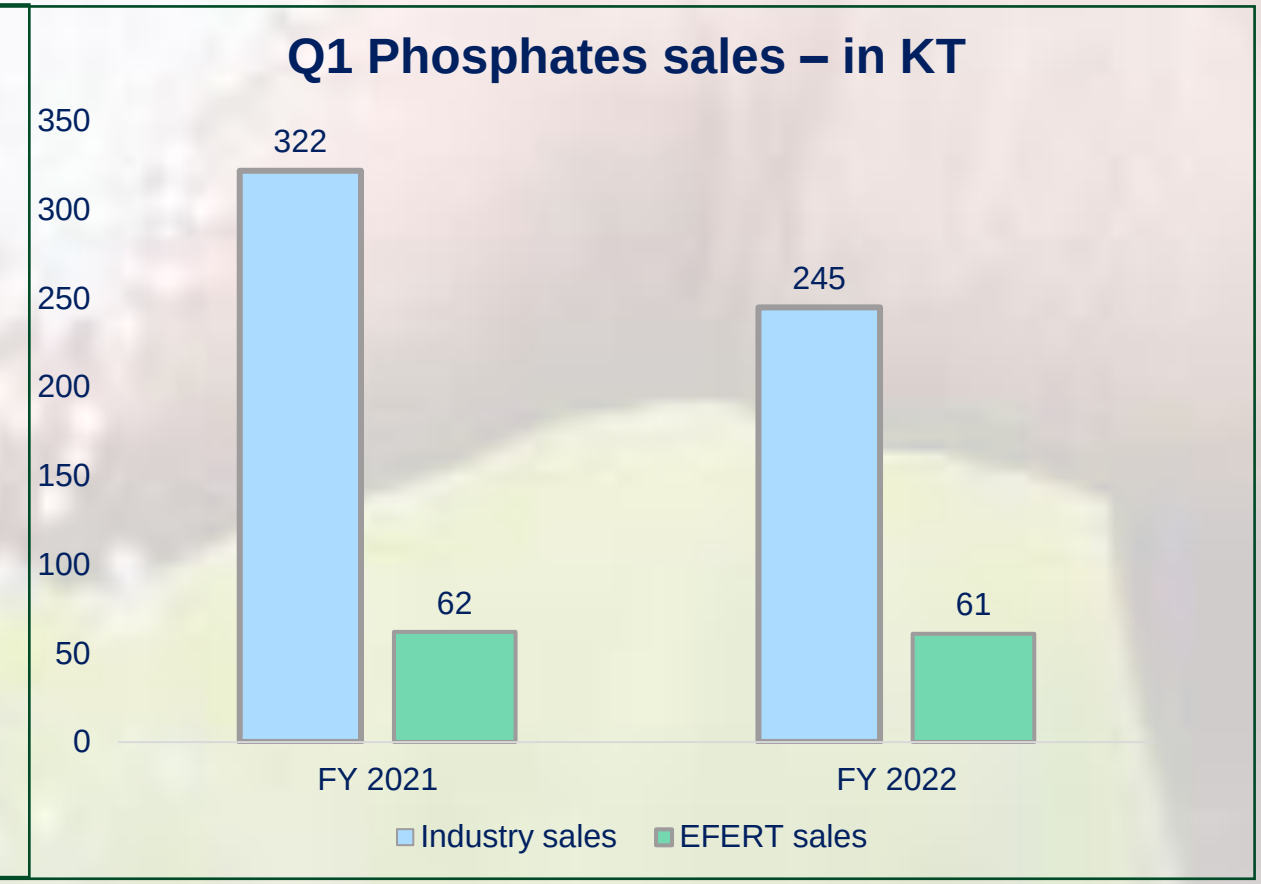
Domestic Discount on Urea
84%

**Data Source: CRU weekly report average (31st March 2022)*
***25% incidentals have been added as per NFDC methodology*
****EFERT Price after taking PKR 150/bag price increase*
~PKR 182 FX rate

Industry
&
EFERT Business Performance

Increasing price disparity impacting fertilizers sales

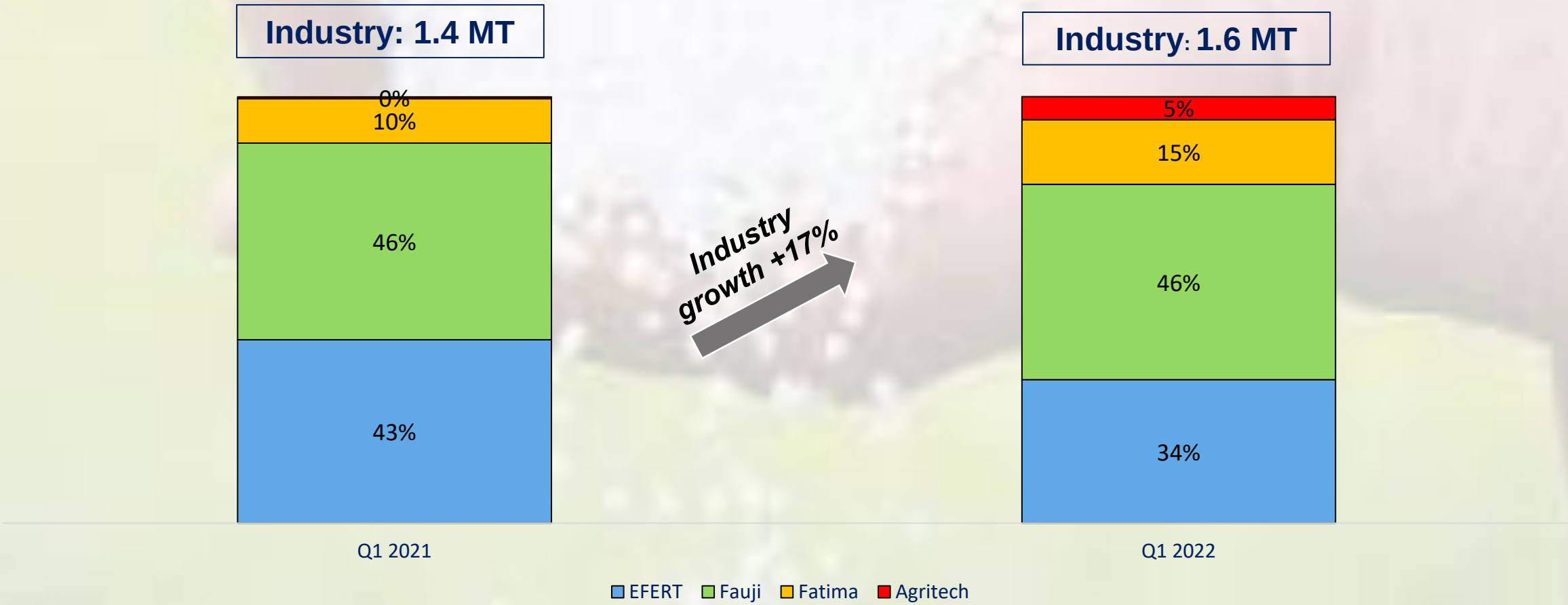




Urea industry has grown by 17%, whereas EFERT sales decreased by 9% because of lower opening inventory levels at the start of 2022.

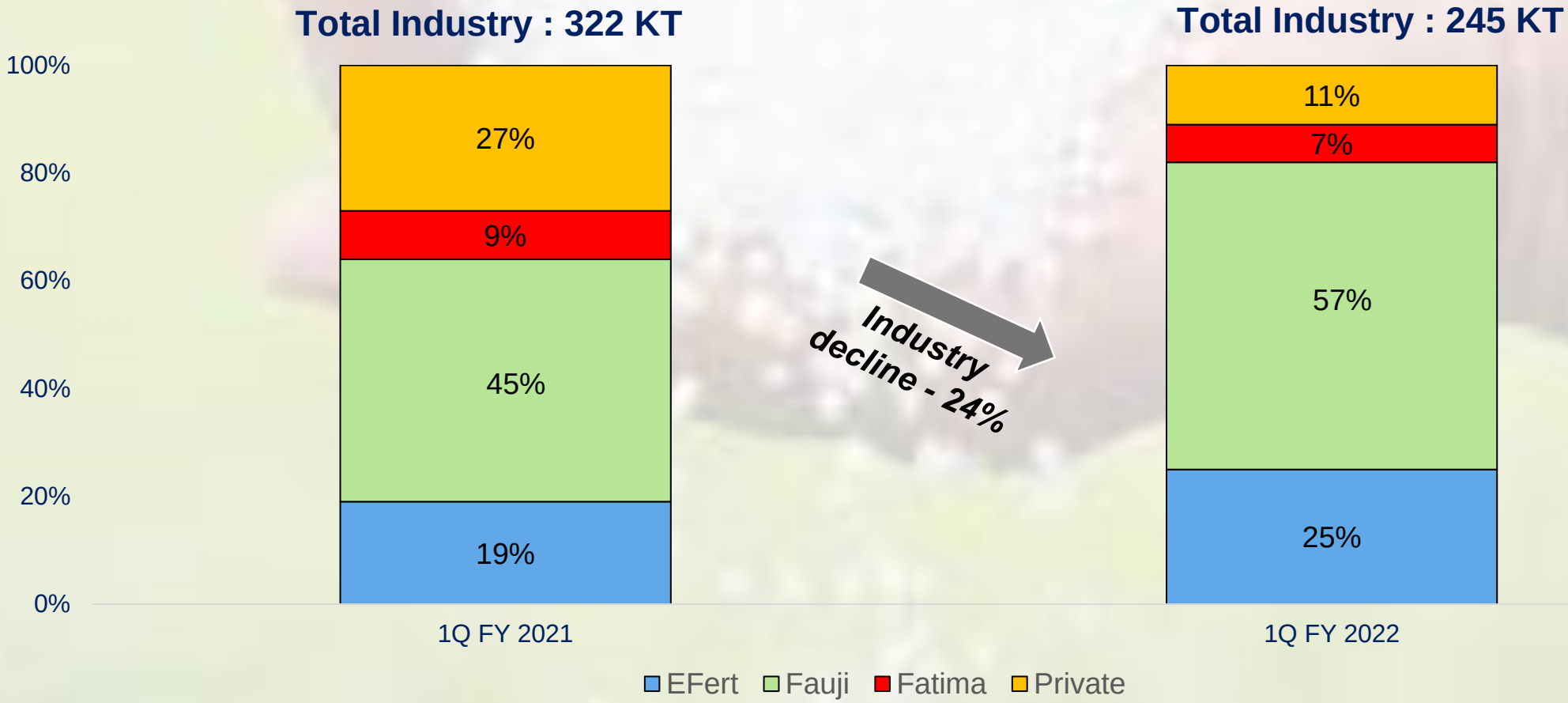
Phosphates industry has declined by of 24%, however EFERT sales marginally decreased by 2%.

Industry Growth & Market Share – Urea



- EFERT market share lower vs LY primarily because of opening inventory of 214KT in Q1 2021.
- Growth in demand of urea has resulted from improved farm economics coupled with increasing price disparity of urea when compared with other fertilizers.
- This increased demand was primarily met through higher production by industry players vs last year
- RLNG plants remained operational in Q1 2022.

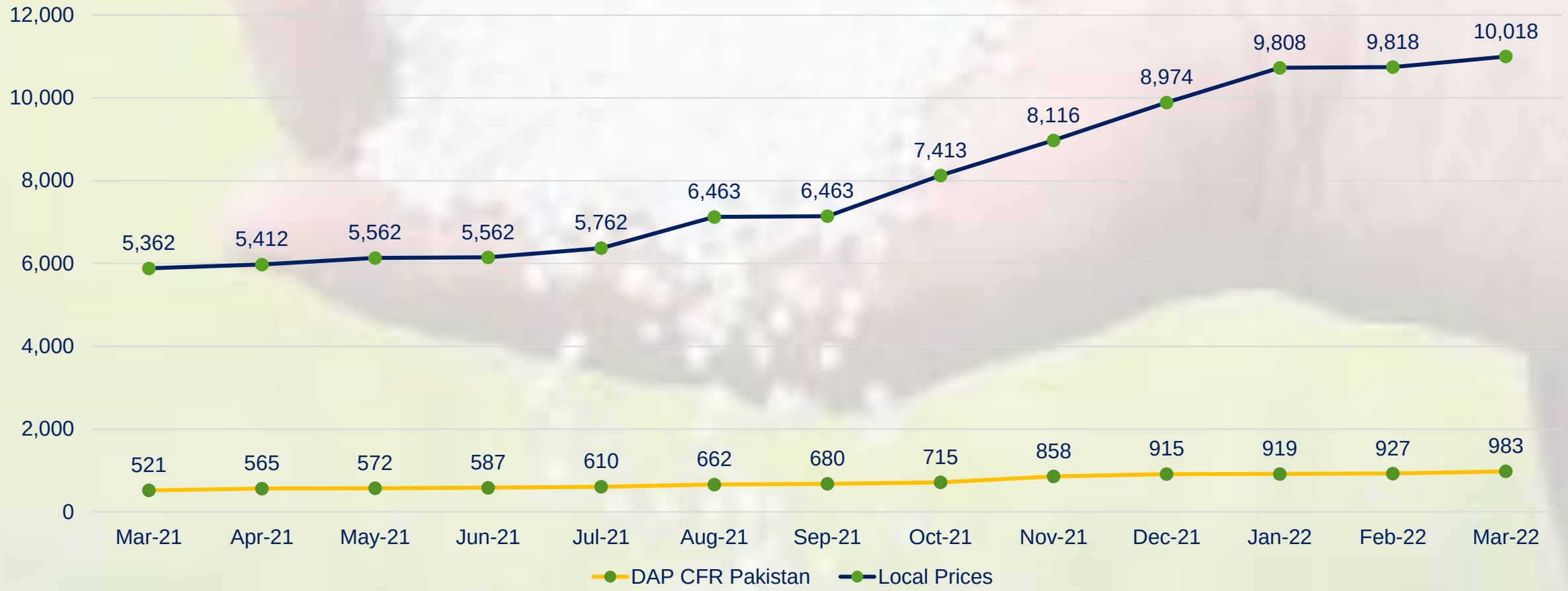
Industry Decline & Market Share - Phosphates



Local prices have increased by PKR ~1,000/bag in 1Q 2022 denoting a 12% increase, in line with international prices.

Closing inventory (KT)	1Q 2019	1Q 2020	1Q 2021	1Q 2022
Industry	632	507	63	295

DAP prices increase in line with the international prices



DAP **international prices** have increased by **89%** from last year.

DAP **local prices** have increased by **87%** from last year.

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

Necessary support required from Government

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.
- **Discussion is underway** with the Federal Government and SNGPL to **extend the concessionary gas period** for the number of days for which **'Minimum Contract Quantity'** was not supplied.

2 Disallowances under Income Tax & Sales Tax Laws for sales to unregistered dealers

- Effective Jan-20, FBR imposed disallowance on manufacturers of sales to unregistered dealers in excess of defined threshold. (monthly>10M & annual>100M).
- However, the Fertilizer industry managed to obtain specific exemption from its compliance in Dec-20.
- From Apr-21 onwards, **EFERT discontinued sales to unregistered dealers** exceeding **threshold** and has been making thorough efforts towards its resolution by registering its unregistered dealer network.

3 Subsidy Receivable

- **The industry is facing a challenge in recovering outstanding subsidy receivable from the government.**
- Industry subsidy receivable – **Rs. 20 Bn.**
- EFERT subsidy receivable as of Mar-22 **– Rs. 6.5 Bn,** outstanding **since 2018** *(represent gross amount before any accounting adjustment).*
- The **benefit** of the subsidy has already been **passed on** to the farmers in the form of **lower prices.**

Support from Government required

4 Sales tax refunds

- **The industry is facing a challenge in recovering outstanding sales tax refunds from the government.**
- Sale tax refund amount recorded for the **Industry** is **PKR 58.23 Bn.** as of Mar 2022**.**
- EFERT sales tax receivable Mar-22 **– Rs. 11.05 Bn.** (Dec 21: Rs. 8.95 Bn.).

5 FBR Clarification on Concessionary Custom Duties

- EFERT and other industry players have been availing concessionary custom duty (CD) at 10%, on eligible plant and machinery. However in Jan-22, FBR issued clarification through which the concession has been withdrawn .
- FBR issued another clarification provisionally allowing import through **submission of bank guarantee (BG) / pay order** of the differential amount.
- EFERT with industry association is working with FBR to clarify and introduce legislation that is congenial to the business.

6 Tax implication on seeds business

- Through Finance Supplementary Act, 2022 (the Act) in Jan-22, **Seeds business**, previously exempted, has been made **chargeable at 17% GST** and further tax, wherever applicable.
- FBR, upon industry request including EFERT, has clarified that **all seeds including local seeds are now taxable**.

Special Items For Discussion

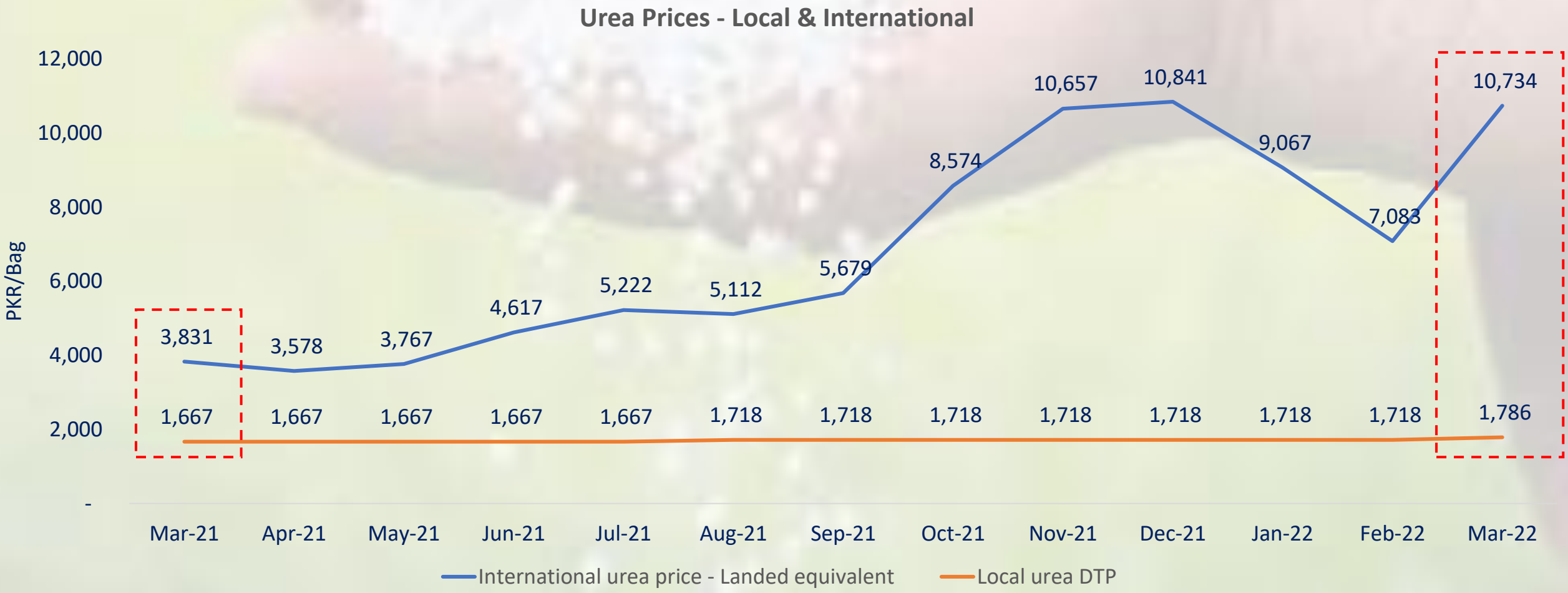
S. No	Topic
1.	Fertilizer Industry’s contribution towards the Nation
2.	Reasons for increase in urea demand
3.	Need for deregulation of the Fertilizer Sector
4.	Fertilizer Industry is internationally competitive and will thrive in a fully deregulated environment without any subsidy

1

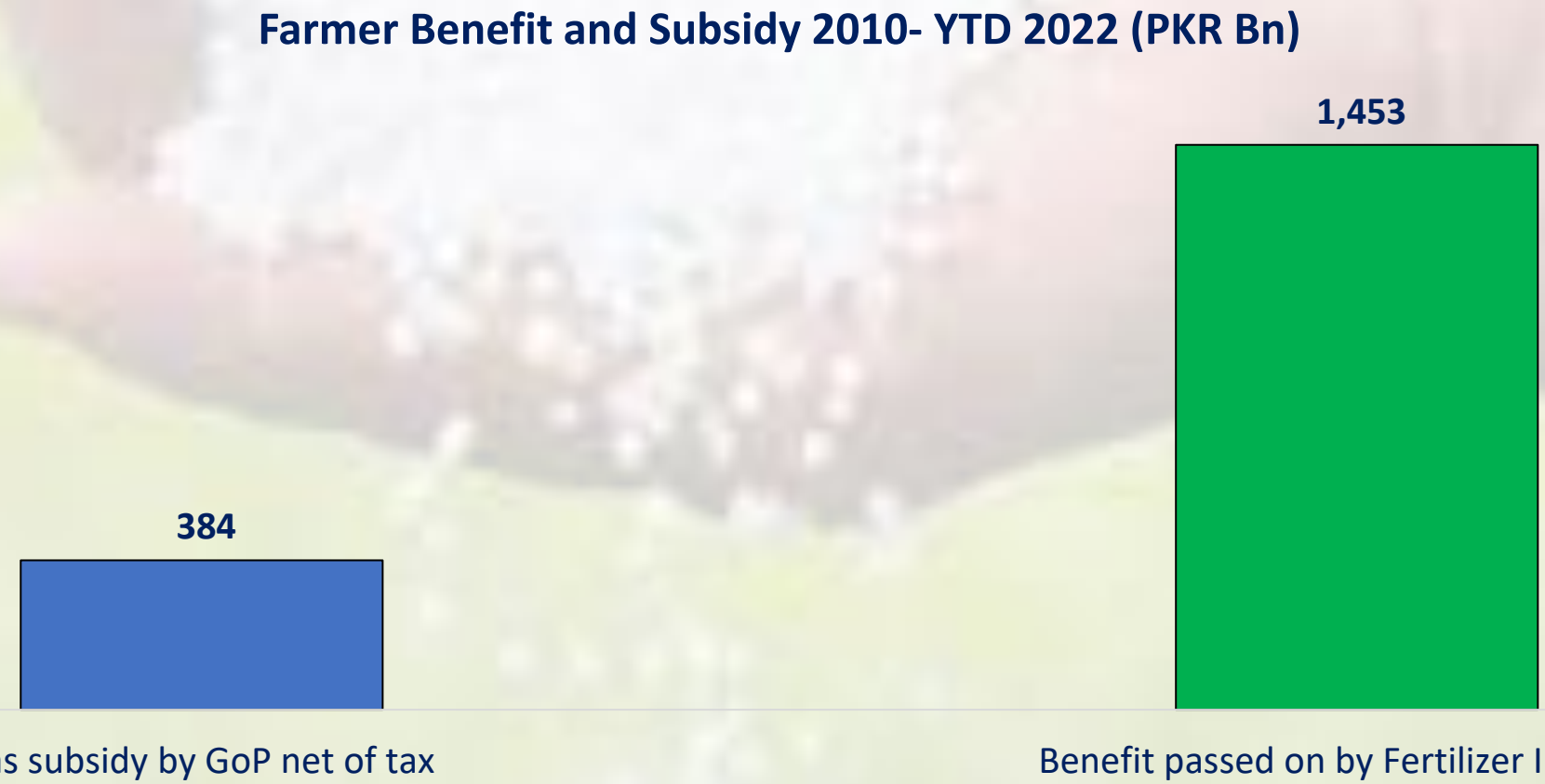
Fertilizer Industry’s contribution towards the Nation

Fertilizer industry has shielded the farmers from international urea price rise

Over the last one year, International urea prices have increased by ~180% whereas local urea prices have increased by 7%



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



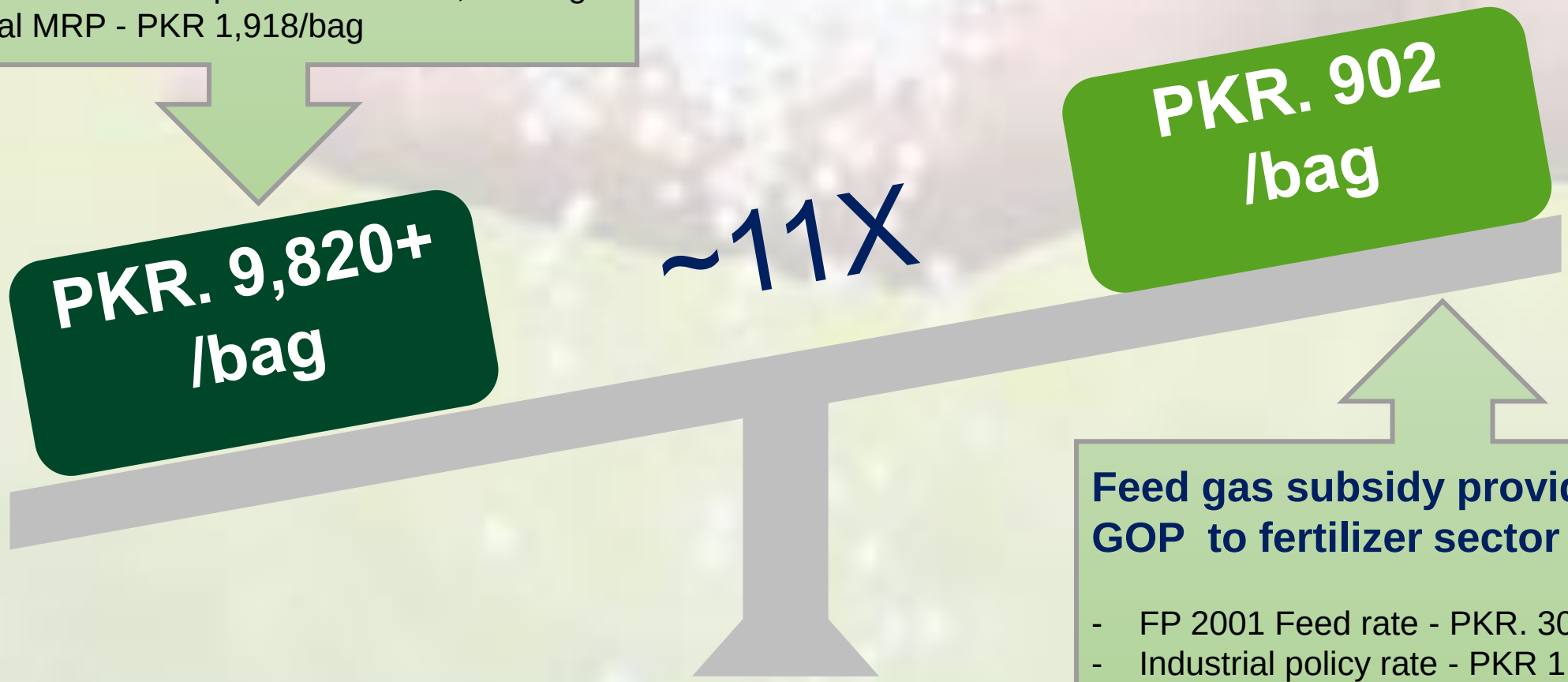
Even though **local urea prices** are at a **substantial discount** than **international urea prices**, **subsidy benefit** of ~**4X** is still **passed** on to the farmers in the form of **lower urea prices**

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

Benefit passed through urea pricing is almost 11X on spot basis

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

- Spot international prices - PKR. 11,741/bag
- Local MRP - PKR 1,918/bag



Feed gas subsidy provided by GOP to fertilizer sector

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

Industry to provide significant import substitution and benefit to farmers

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

~USD 5.3 Billion

~USD 41/bag

Annualized benefit to domestic farmers based on average international prices

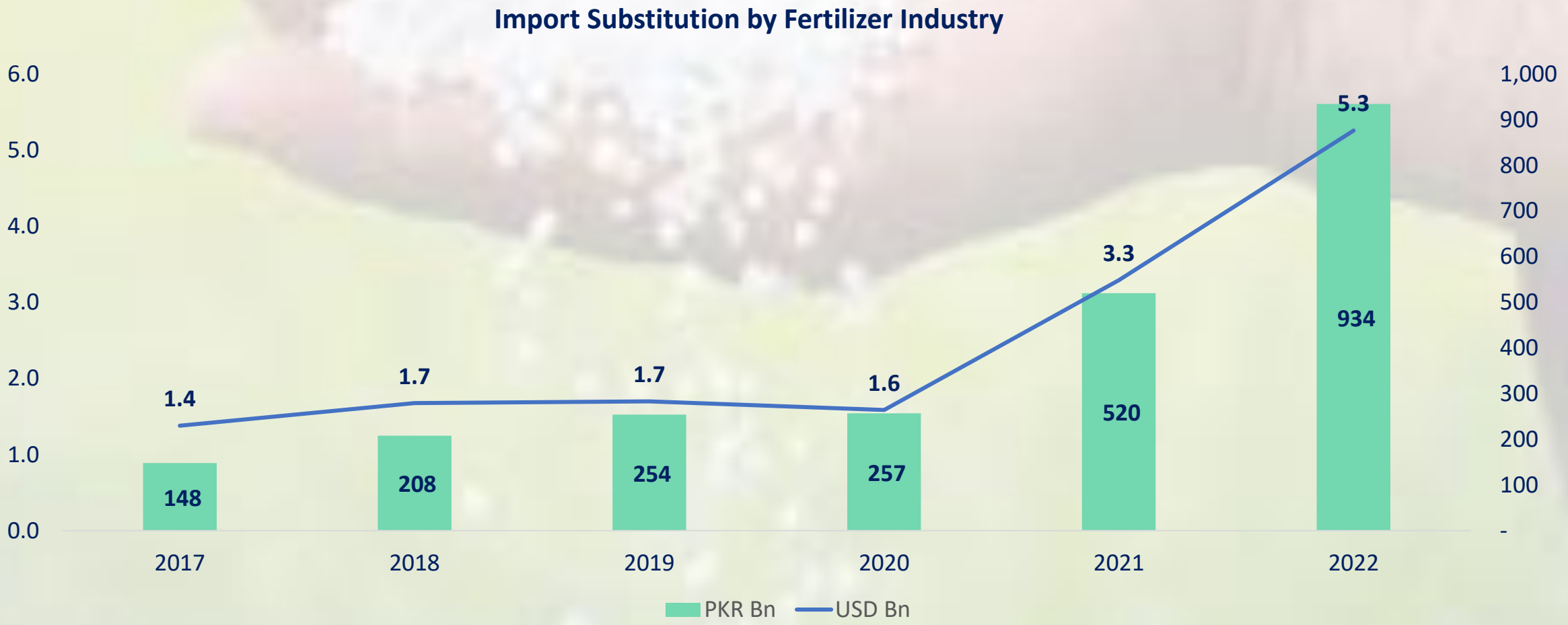
~PKR 934 Billion*

~PKR 7,207/bag

*Delta between Q1 2022 average international price & local urea multiplied by expected annual sales of 6.4MT

Domestic Urea industry will reduce trade deficit due to import substitution

Fertilizer sector to contribute ~PKR 934 Bn (USD 5.3B) towards reducing trade deficit in 2022 if the international prices remain on current trajectory



Fertilizer industry to save farmers additional burden of PKR 926 Bn in 2022

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

Average Import Parity price		*Average Local MRP*		*Per bag Benefit*
Rs 8,996/bag	–	**Rs 1,789/bag**	=	**Rs 7,207/bag**

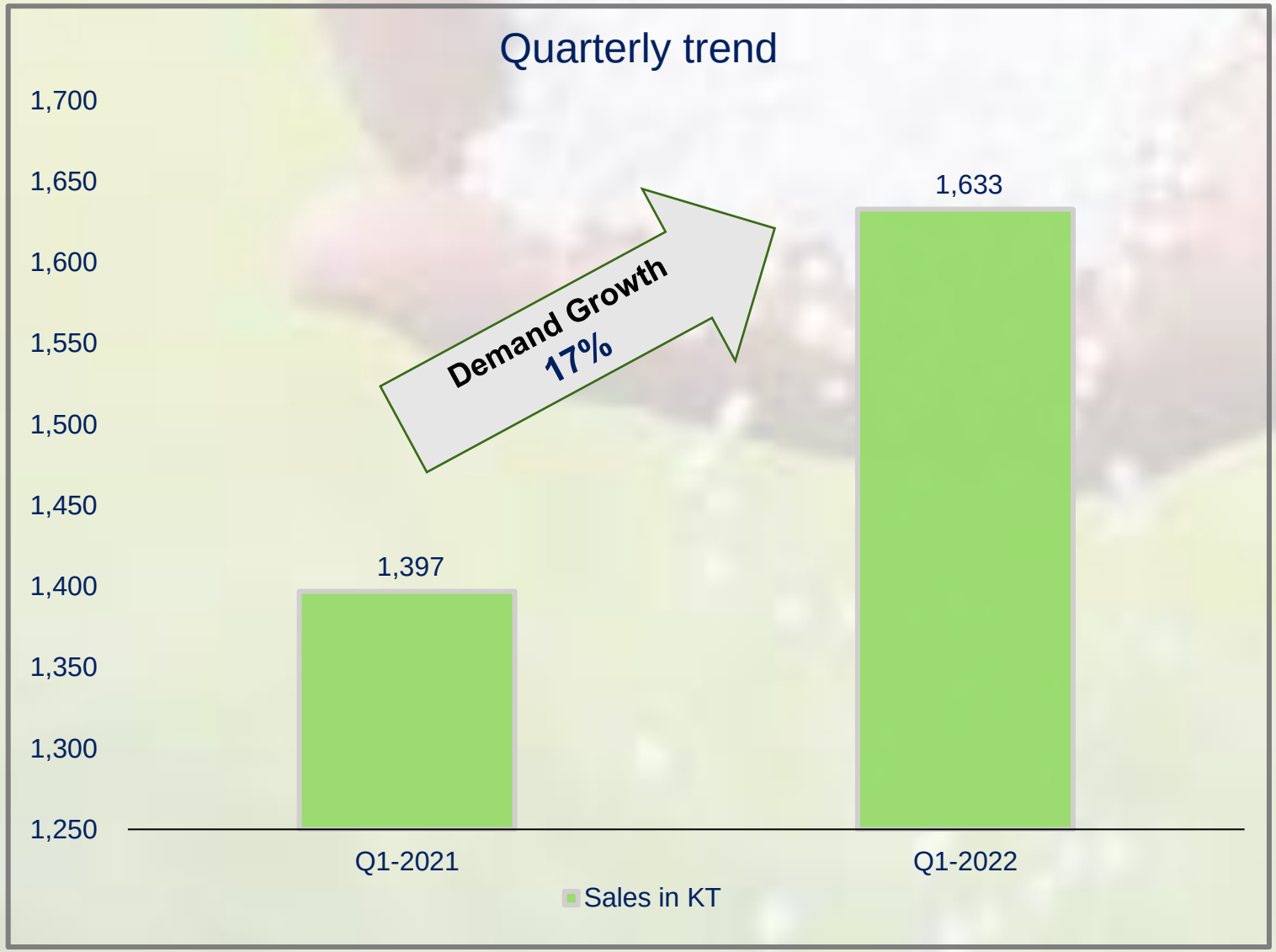
PKR 934 Bn

Assumes 6.4 MT sales for 2022

2

Reasons for increase in urea demand

Urea Demand



Points to ponder

- As per agronomics, Urea demand **has only increased by a minimal 2%** as compared to the same period last year.
- As per market intelligence, **inventory with the channel was ~64% lower than last year** (~125 KT Vs ~350 KT last year).
- This situation may in part be due to advance buying by the farmers but also indicates a **strong probability of product movement across border emanating from significant disparity among local and international urea prices.**

3

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

What deregulation would mean

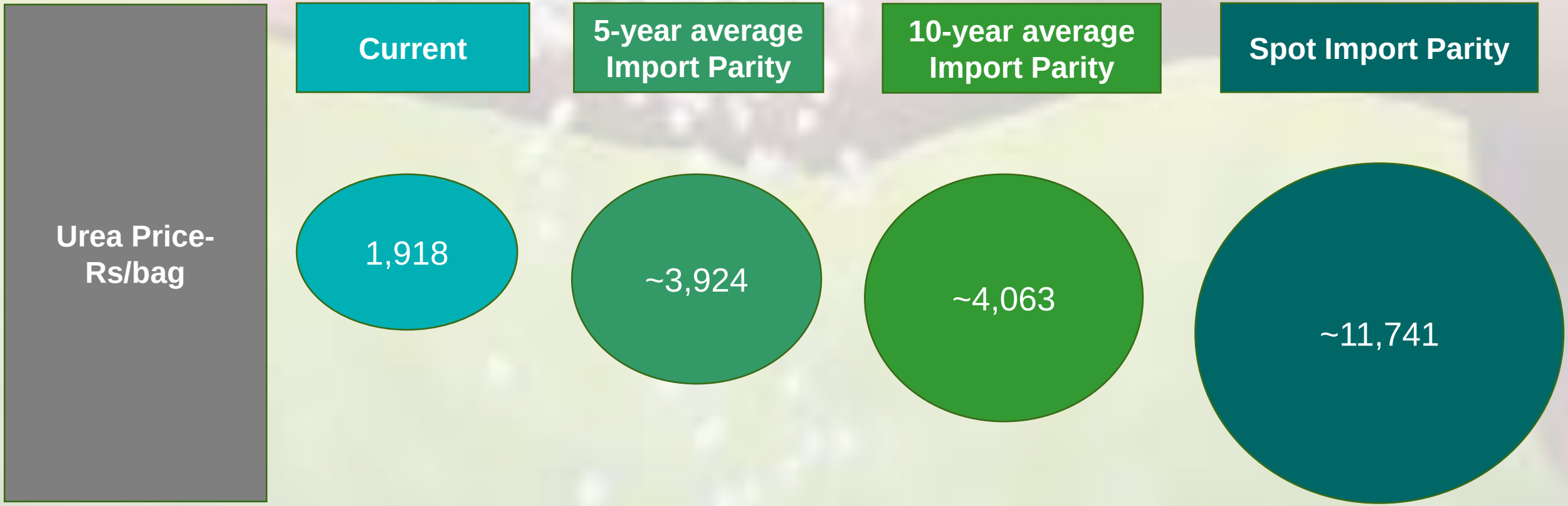
Industry Dynamics	Existing Structure	De-Regulated Industry
Urea Pricing	Pricing set by industry players at a significant discount to imported urea	Pricing of urea to be based on Import Parity or Industry WACOG pass through
Gas Pricing	Largely at FP 2001 policy, with some players offered PP 2012 and subsidized 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	

Impact of Deregulation on urea prices

- Post deregulation urea will be priced at import parity which will significantly increase urea prices
- Agri productivity and farmer incomes especially at the bottom of the pyramid would take a huge hit



Assumption: 25% incidentals on CFR as per NFDC methodology & FX of 182.5

Higher revenue from industry can fund targeted subsidy for small landholders

- Around 90% of the farmers own ~48% of the land with size of less than 12.5 acres (consuming 2.9MT of Urea)
- Post deregulation, Government can utilize the benefit of reduced subsidy on feed gas to offer targeted subsidy to small farmers (having farm acreage of 12.5 or below)

Incremental GoP revenue due to higher gas prices & taxes (at par with industrial rates)

PKR 150 Bn+

Subsidy to small farmers

~PKR 116 Bn

1) Spot delta between FP feed prices and Industrial policy rate multiplied by FP 2001 based production; does not include production based on PP '12 gas
2) Tax on incremental profits earned by Fertilizer Industry on indigenous gas supply post WACOG

Spot delta between Import parity urea prices (last 5 year average) and local urea prices multiplied by 2.9 MT (small farmers offtake)

4

Need for deregulation of the Fertilizer Sector

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