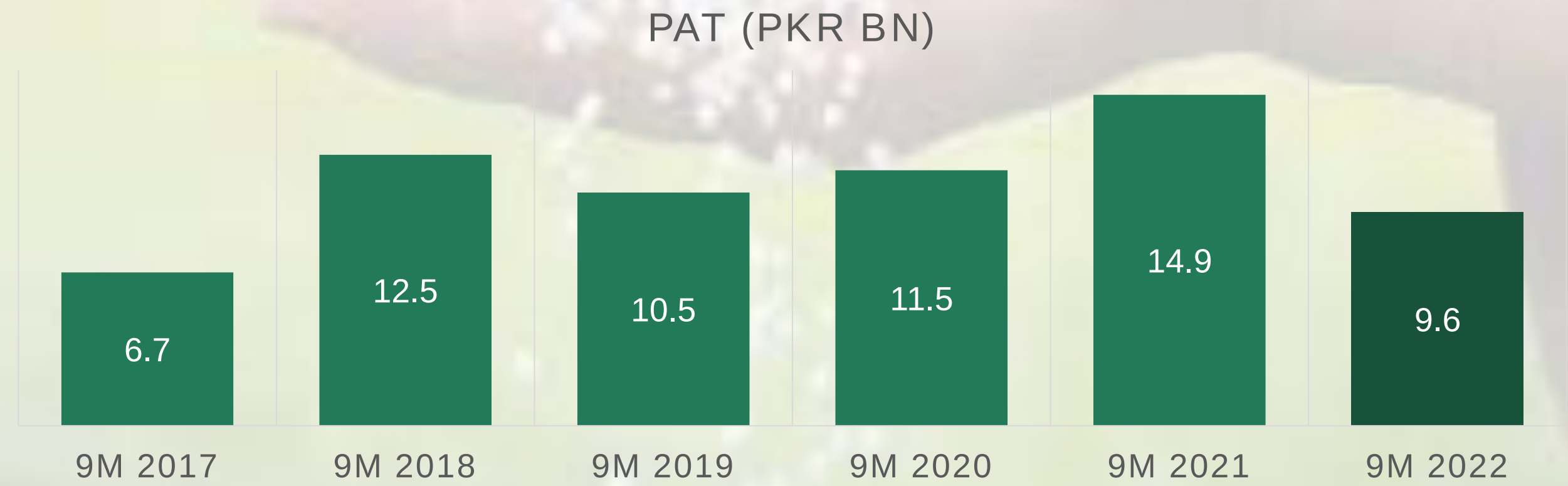
Analyst Briefing
9M 2022

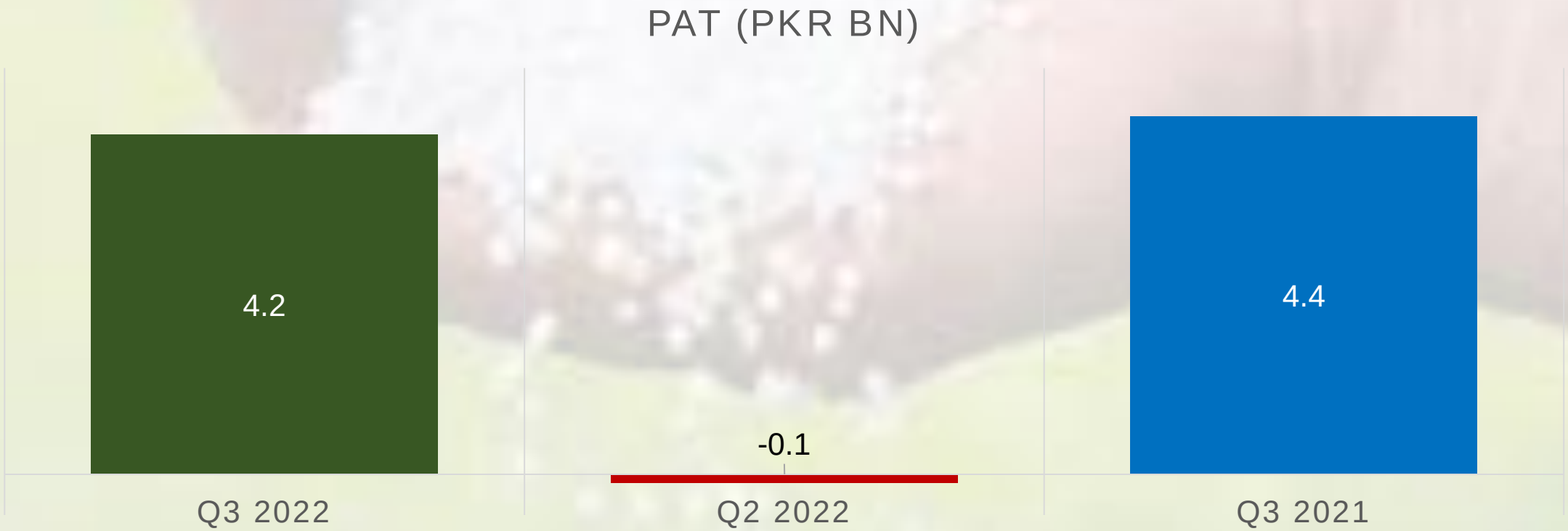
EFERT Highlights

9M Profitability analysis

EFERT has announced a dividend of **PKR 3/Share** for 3Q 2022 (YTD 2022 PKR 8.5/Share) Vs the **PKR 3.5/Share** in 3Q 2021 (YTD 2021: PKR 11.5/Share)



Our profitability through the quarters…

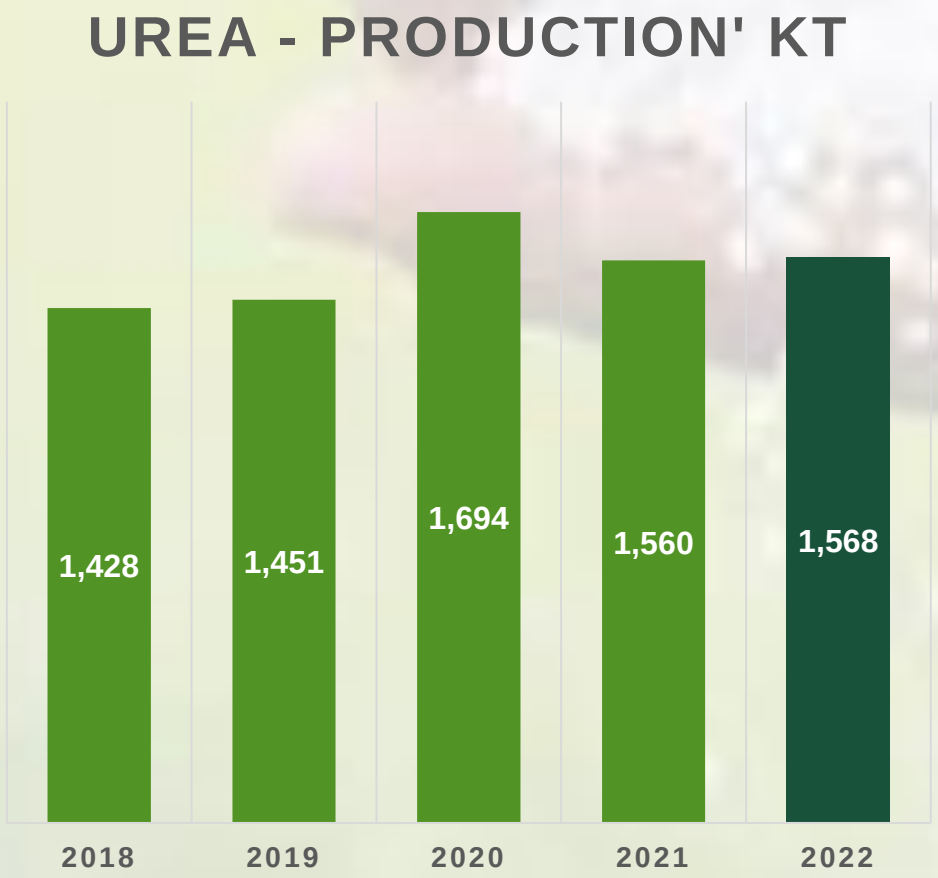


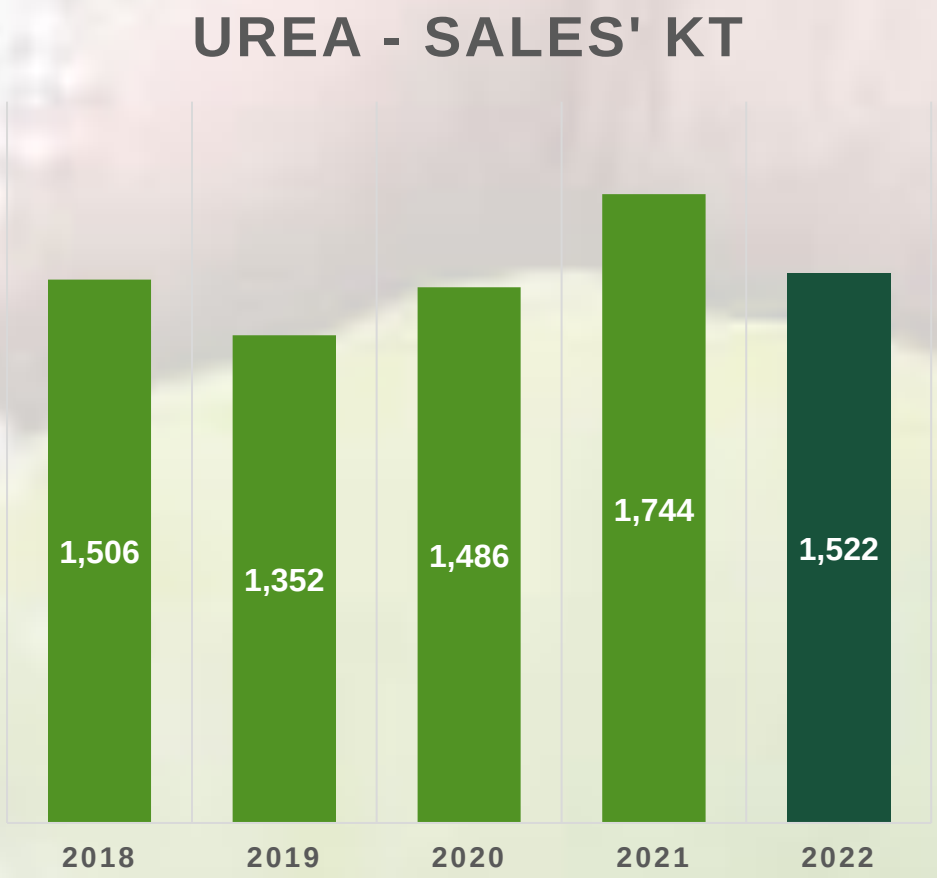
Current Quarter

Last Quarter

Same period last year

Urea Production & Sales for 9M





Base Plant Turnaround

- The scheduled maintenance activity of Base plant has commenced on September 27, 2022 and is estimated to continue for 60 days.

- It will ensure long term reliability and sustainable safe operations of the base plant.

Agri Sector Performance

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

Earning from Wheat is expected to increase by 27%, from Cotton by 5% and from Rice-Basmati by 73% except Sugarcane (8% dip YOY) due to higher cost of production coupled with lower productivity (adverse weather conditions).



Wheat	2021-22	2022-23P
Total expense (PKR)	45,926	64,420
Fertilizer Expense (PKR)	12,000	15,100
Yield (Maund/Acre)	33	33
Grain Price (Rs/Maund)	2,150	3,000
Earning (PKR/Acre)	**39,049**	**49,430**

Wheat:

- For 2022-23, Support price **increased to Rs. 3000/Maund Vs** Rs 2200/Maund LY.
- Farmers are expected to receive grain price at Rs 3000/maund (1 Kg extra/Q by procurement agencies as trash and dirt cut).
- **Per acre earning is expected to improve by 26.6% YoY.**



Sugarcane	2021-22	2022-23P
Total expense (PKR)	99,485	114,230
Fertilizer Expense (PKR)	12,500	17,400
Yield (Maund/Acre)	770	740
Cane Price (Rs/Maund)	245	265
Earning (PKR)	**89,200**	**81,900**

Sugarcane:

- For 2022-23, higher commodity price is expected due to higher demand in Industry (Area damaged due to high erratic rainfalls) than that of commodity price last year.
- Yield of cane is expected lower than last year due to adverse climatic conditions.
- Per acre **earning will drop by 8.2% due to higher cost production coupled with lower yield.**



Cotton	2021	2022P
Total expense (PKR)	56,281	73,813
Fertilizer Expense (PKR)	10,804	16,600
Yield (Maund/Acre)	20.5	16.0
Phutti Price (Rs/Maund)	6,000	9,000
Earning (PKR)	**66,719**	**70,187**

Cotton:

- 2022 was not good for Cotton in terms of productivity, lower average yield than LY due to adverse weather.
- Seasonal average price is expected 9000/ma and at 16 Maund/acre yield, farm earning is expected at Rs 70K/Ac (5% up YoY)
- Currently NY Cotton#2 for Dec'22 contracts is at 85.34 cents/lb Vs 107.7 LY (21% down YoY).
- Current price at Karachi Cotton Market are Rs 20362/ 40 Kg Vs Rs 15,325/40 Kg LY (PCCC Report 6-10-2022)



Rice - Basmati	2021	2022P
Total expense (PKR)	49,219	70,095
Fertilizer Expense (PKR)	9,142	18,175
Paddy Yield (Maund/Acre)	33	34
Paddy Price (Rs/Maund)	2,350	3,500
Earning (PKR)	**28,330**	**48,910**

Rice- Basmati:

- Rice exports in FY 2021-22 stood at 4.877 Mn ton (33% up from 3.68 Mn ton LY) of value $2.5 Bn (23% up from $2.04 Bn LY).
- Due to increased demand from exporters, prices witnessed upsurge since harvest.
- Farm earning is expected to **improve by 72% YoY due to significantly higher commodity price, i.e., Rs. 3500 Vs 2350 LY.**
- In 2022, cost of production including fertilizers and tillage has significantly gone up

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.

International Urea Prices at a Premium of over 75%

FOB Price*
USD 637/T

CFR Price
USD 657/T

As of Sept 30th, 2022

Landed Equivalent MRP
PKR 9,874/Bag

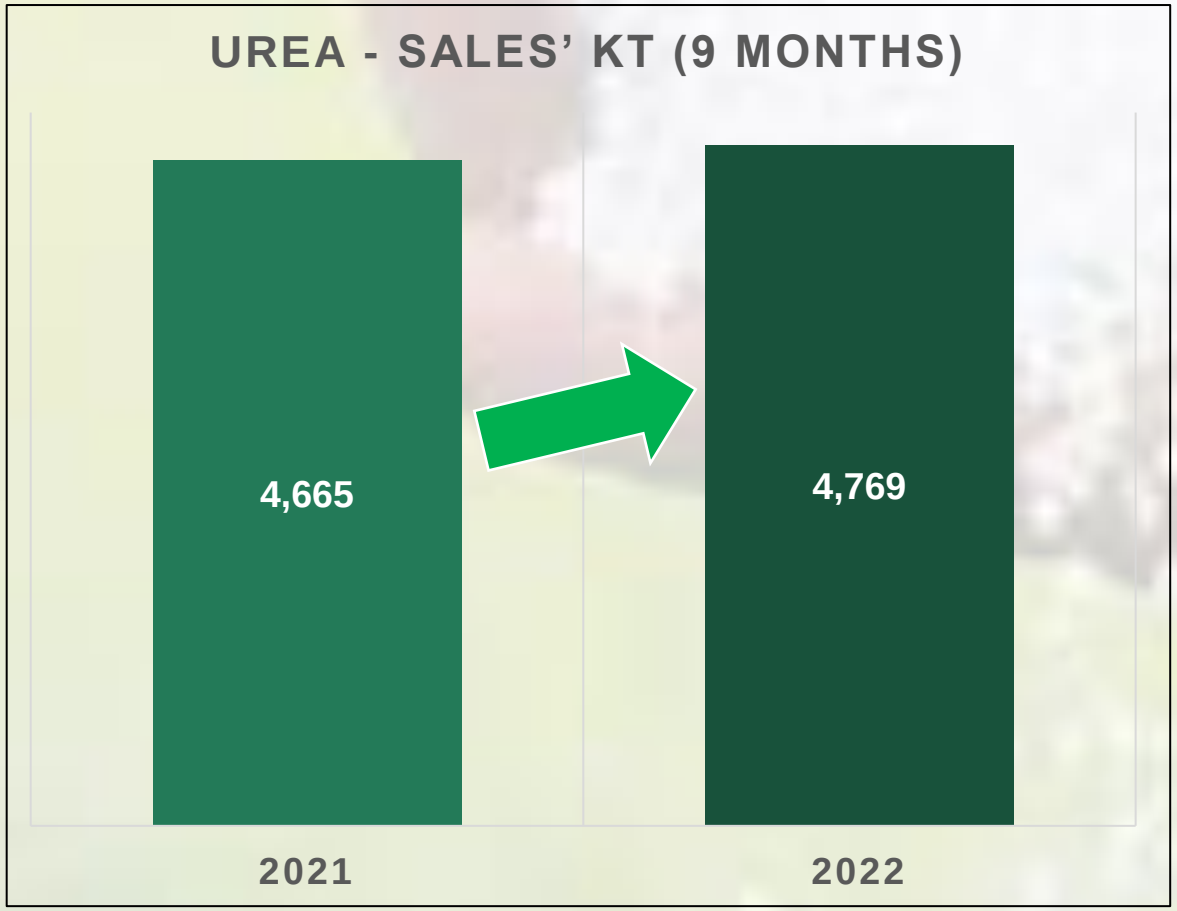
Local Urea MRP
PKR 2,250/Bag

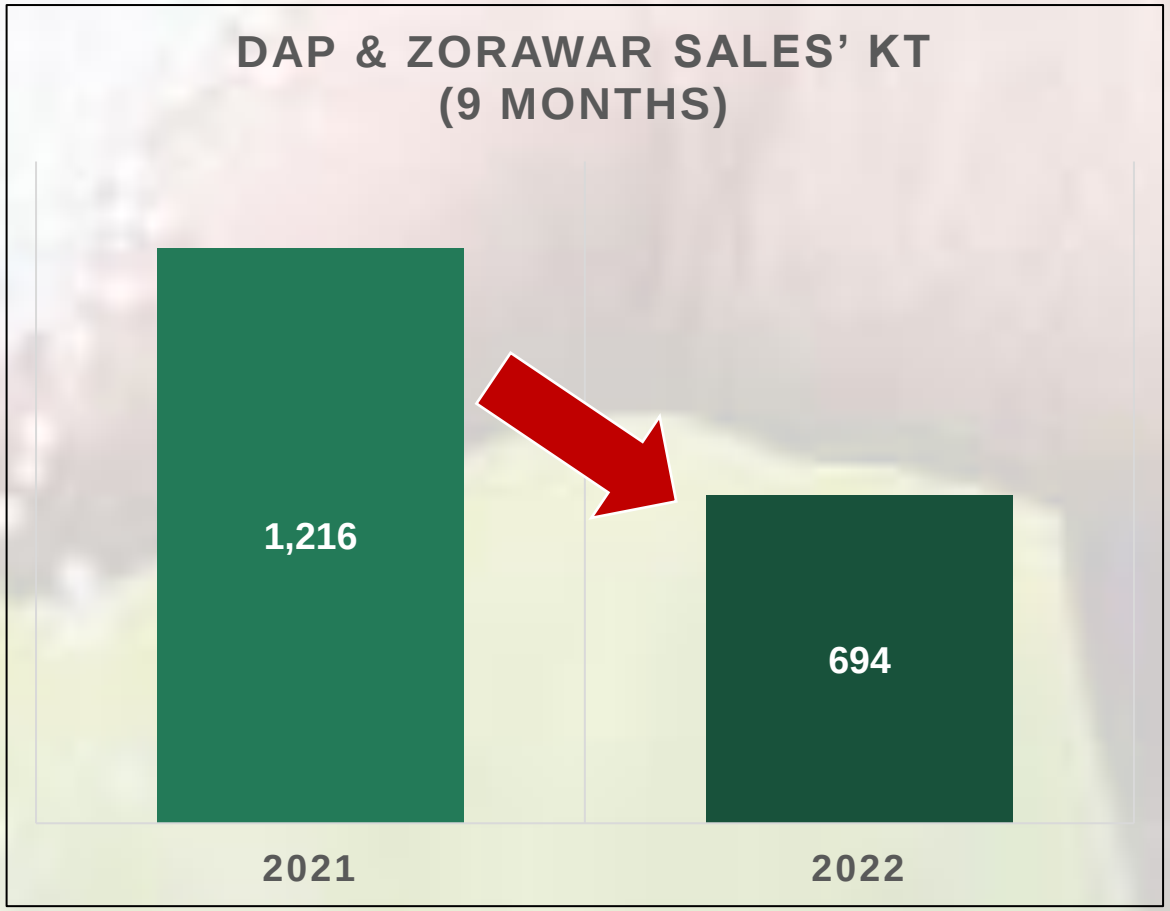
Domestic Discount on Urea
77%

**Data Source: CRU weekly report average*
~PKR 231.8 FX rate

Industry
&
EFERT Business Performance

Increasing DAP prices has significantly affected the market

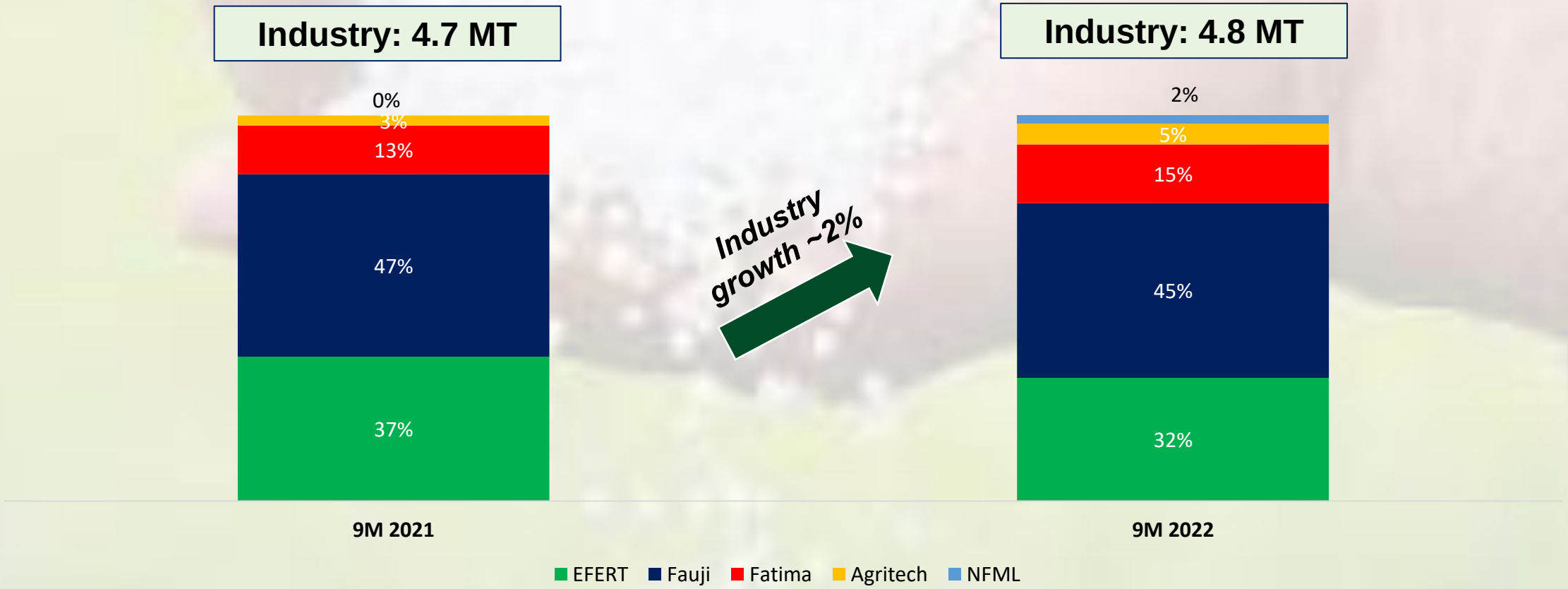




Urea industry has grown by 2%

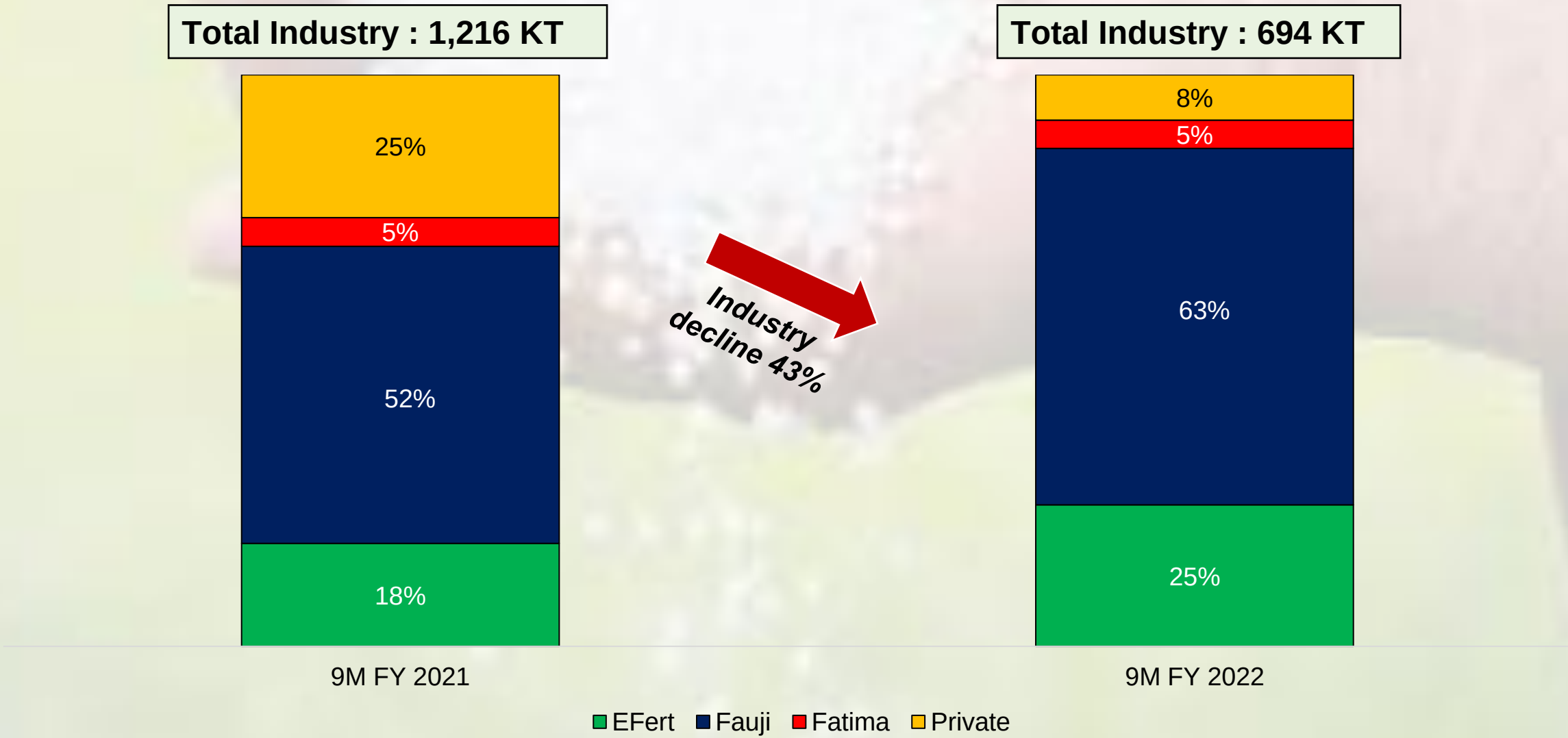
Phosphates industry has declined by of 43%.

Industry & Market Share – Urea 9M



- EFERT market share lower vs last year primarily because of opening inventory of **~220KT in 2021 vs 17KT in 2022.**
- 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 operational in 9M 2022 (except during **1st May to 6th May** due to diversion of gas to power sector) and expected to continue till December.

Industry & Market Share - DAP & Zorawar 9M



Major Enactments & Necessary support required from Government

Major Enactments and Changes

1 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 September** current tax charge of **Rs 853m**
- Recently in September LHC and SHC both have passed interim orders providing stay to certain companies against the demand of Super Tax.
- The impact of the Super tax still has **not been passed** onto the customers by EFERT.
- 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.

Support from Government required

1 Sales Tax & Refunds

- Significant mismatch between higher input tax and lower output tax on fertilizers led to piling up of substantial sales tax refunds.
- To avoid further piling up of refunds, Government through Finance Act 2022, **exempted fertilizers from sales tax effective July 01, 2022. This means that input GST now becomes a cost (previously claimable) and output GST can no longer be levied.**
- The exemption has therefore resulted in **increase in price** of the fertilizer products.
- However, the industry is still facing challenge **in recovering outstanding sales tax refunds** from the Government.
- Sales tax refund for the **Industry** is **PKR 71 Bn.** as of September whereas **EFERT's** share is **Rs. 12.4 Bn.** (Dec 21: Rs. 8.9 Bn).

2 Expiry of Concessionary Gas

- The concessionary gas period for Efert was set to end on June 24, 2021.
- ECC in its decision dated January 1, 2014 stated **"***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.

3 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 September 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.	Flood impact
3.	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



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

Farmer Benefit and Subsidy 2010 – Sept YTD 2022 (PKR Bn)



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

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

Industry to provide significant import substitution and benefit to farmers

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

~USD 4.2 Billion*

~USD 33/bag

Annualized benefit to domestic farmers based on Spot international prices

~PKR 980 Billion**

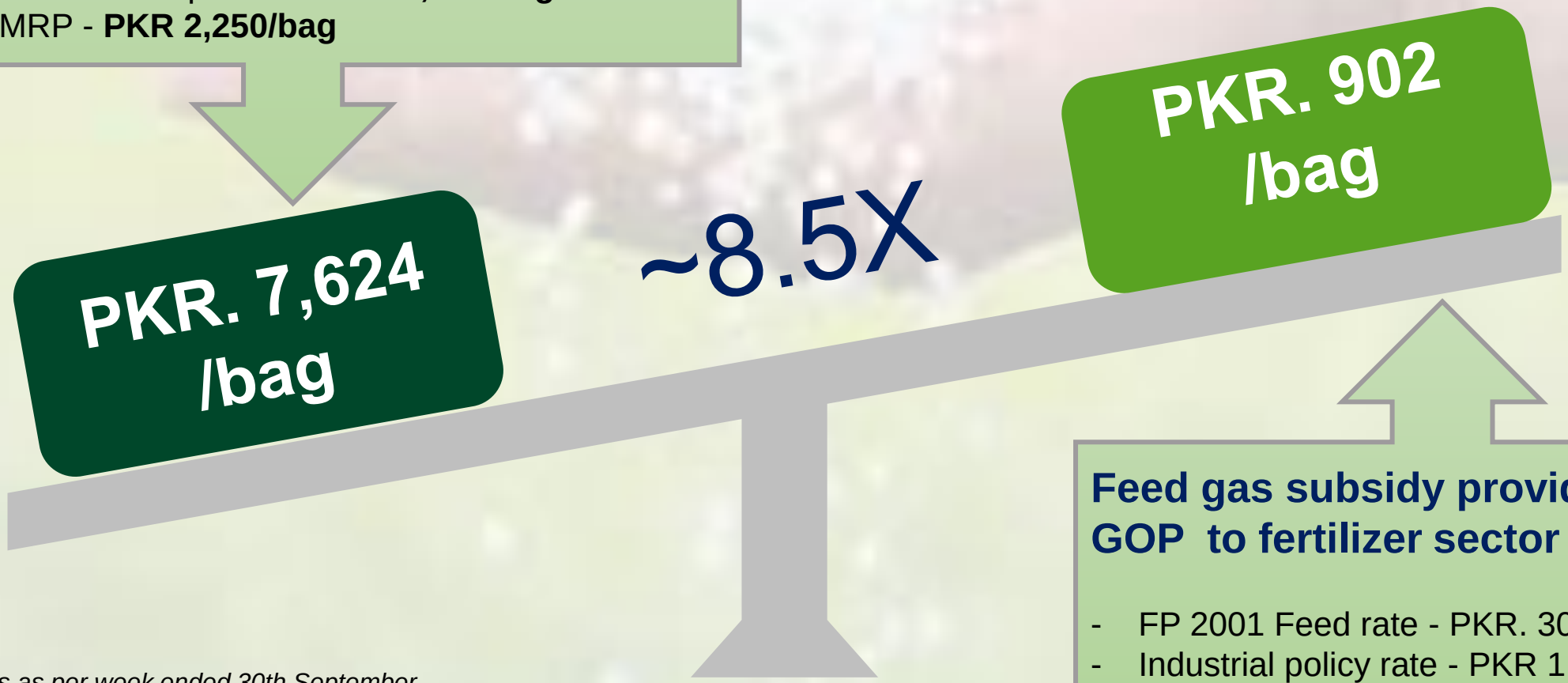
~PKR 7,624/bag

*International Spot price of USD 657/ton (CFR) assumed with expected local annual production of 6.4MT.
**Delta between international price & local urea prices as of September 30, 2022, multiplied by expected annual production of 6.4MT.

Benefit passed through urea pricing is almost 8.5X on spot basis

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

- International MRP prices - **PKR *9,874/bag**
- Local MRP - **PKR 2,250/bag**



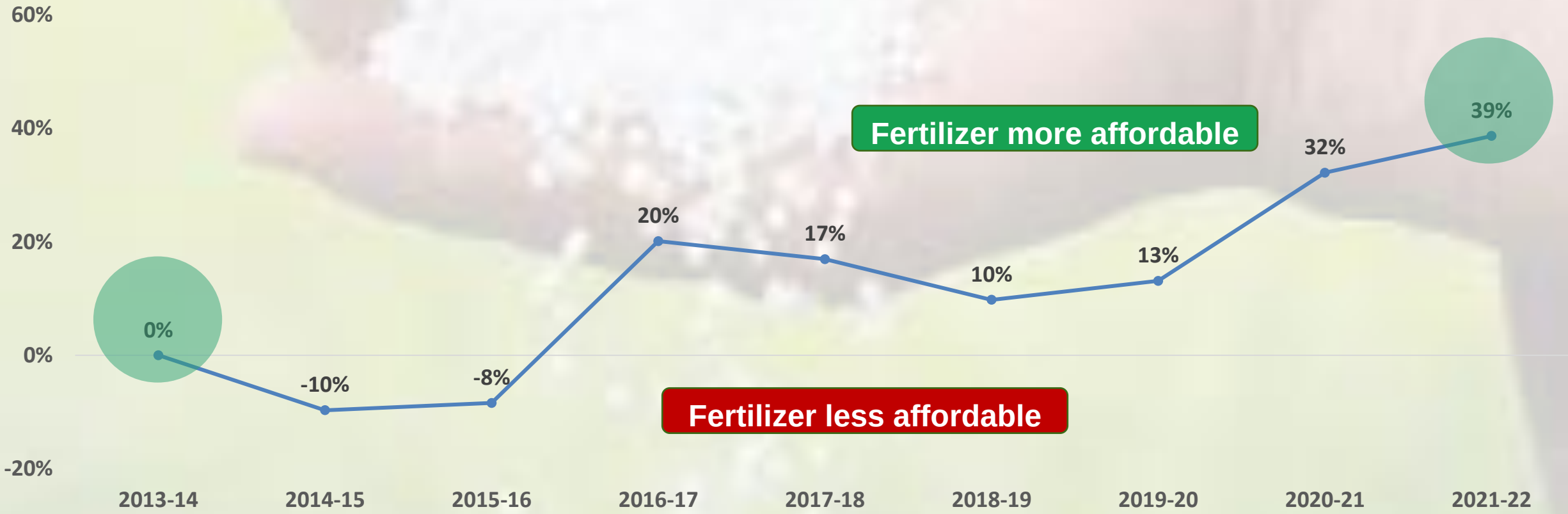
Feed gas subsidy provided by GOP to fertilizer sector

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

**Spot price is as per week ended 30th September.*
USD Exchange rate: 231.8

Urea to crop affordability ratio

The below chart tracks urea cost against the crop prices over the years. Considering 2013-14 as base year, urea cost is 39% more affordable in 2021-22.



Assumptions considered:

1. Urea required per acre: 160-165 Kgs.
2. Crop output per acre: ~19,500 Kgs. Crops considered include wheat, rice, maize, sugarcane and cotton.
3. Fertilizer prices are as per the NFDC (last two years prices are as per EFERT).
4. Urea cost % crop price in 2013-14 has been considered as base for calculation purpose.

2

Flood impact

Flood Causing Huge Damages to the Country

The damage is increasing with each passing day as the water is still stagnant in few areas.

84 Districts
Damaged out of 160

33 million
people affected

1,663 Deaths

12,865 Injured

2.06 Mn Houses
damaged

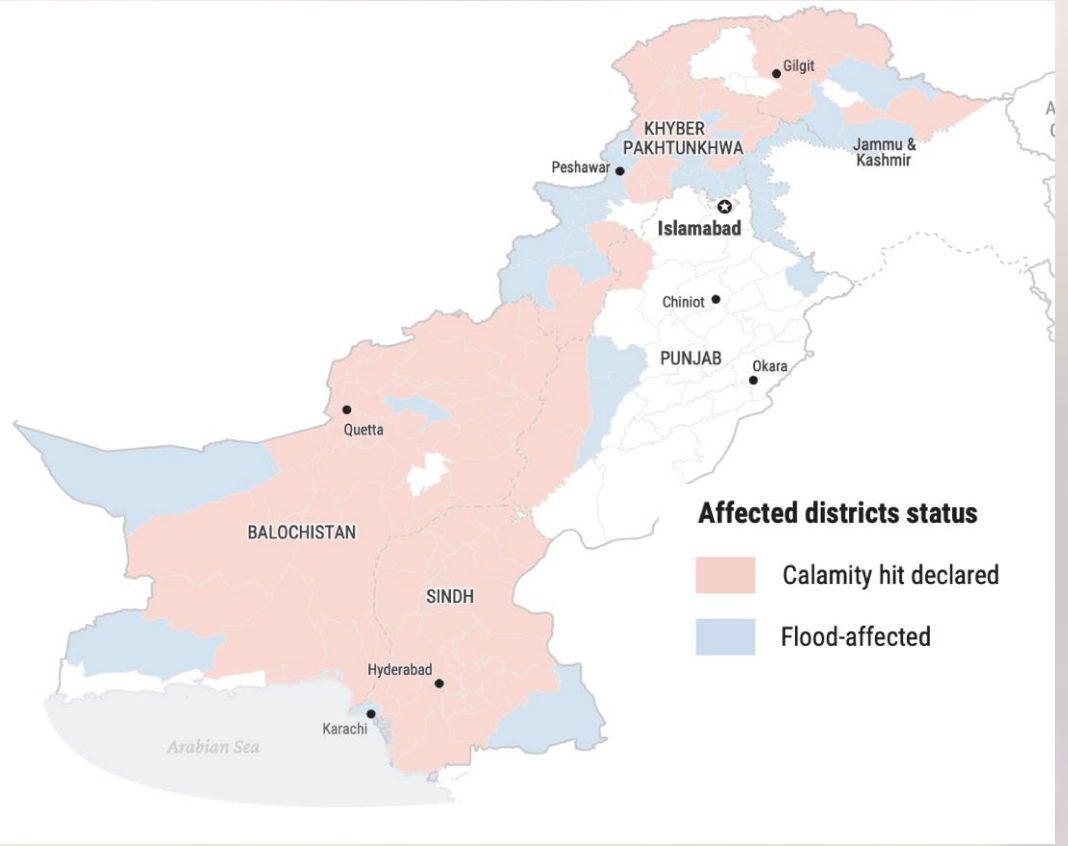
13,074 Kms
roads damaged

410 Bridges
damaged

1.1 M
livestock perished

4.5 million acres
Crops area damaged

$ 12-15 Bn*
required to resettlement and rebuild the infrastructure



Reference: National Disaster Management Authority Report Sep 27, 2022; FAO - Pakistan Floods

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	

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