SECTOR STUDY . FEBRUARY 2025

Together. Creating Value.

Fertilizers

Research Team

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Fertilizers

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.

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).

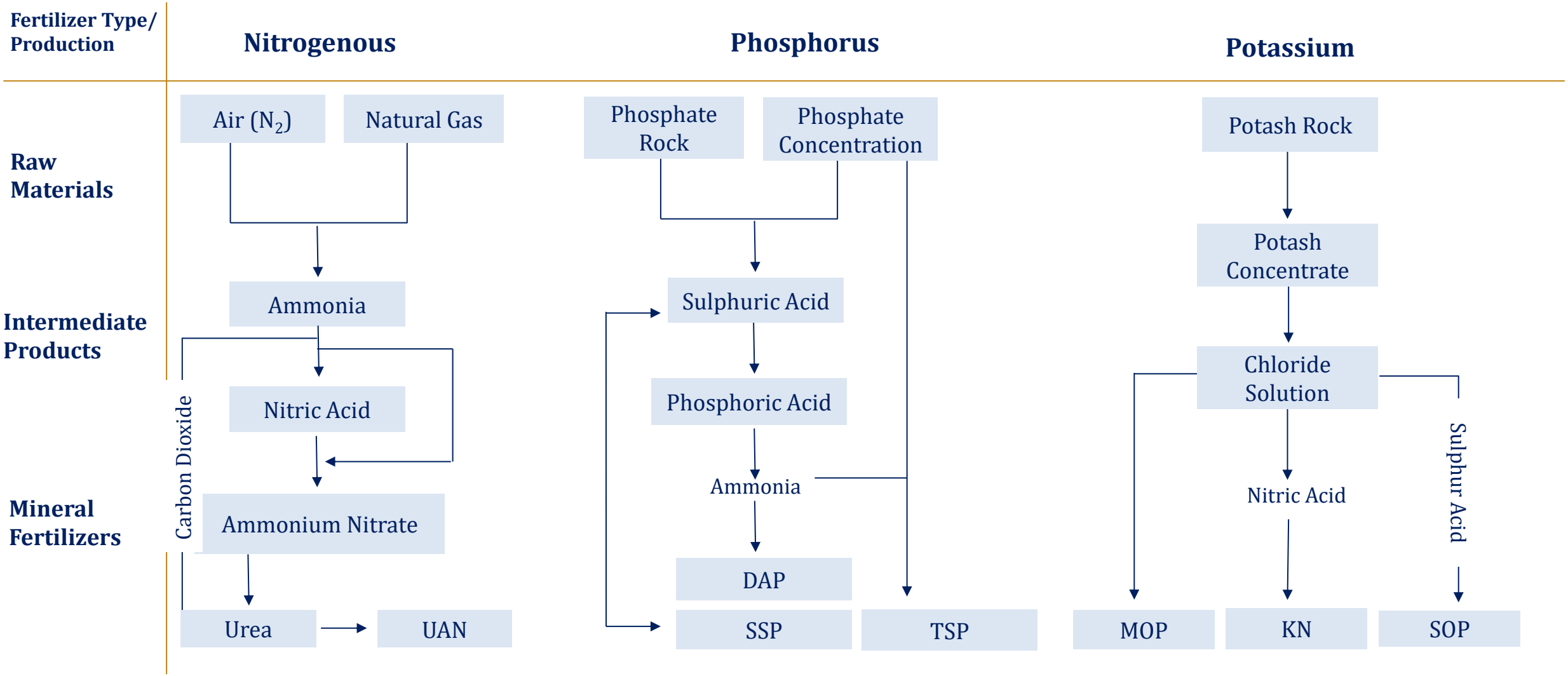
Potash

CAN: Calcium Ammonium Nitrate, DAP: Di-Ammonium Phosphate, NPK: Mixed Nitrogen, Phosphorus and Potassium, NP: Mixed Nitrogen and Phosphorous, SSP: Single Superphosphate

Source: EOS Data Analytics

Fertilizers

Production Process



UAN: Urea Ammonium Nitrate, SSP: Single Superphosphate, DAP: Di-ammonium Phosphate, TSP: Triple Superphosphate, MOP: Muriate of Potash, SOP: Sulphate of Potash

Fertilizers

Usage By Crops | Application

Wheat

- All phosphorus, 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 the time of sowing.

Rice

- Application of zinc sulphate (35 percent Zn) at the rate of 12.5 kg/ha after 7-10 days of transplanting.
- Nitrogenous 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

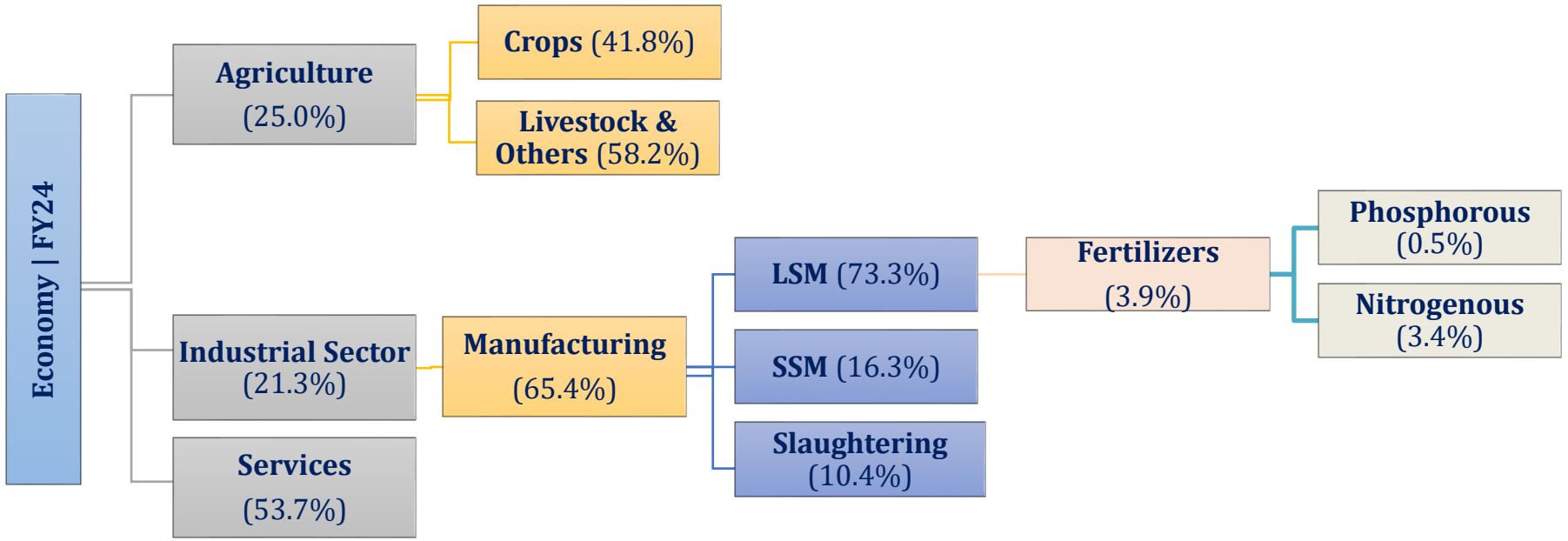
- In medium soils for OPV's 87 Kg Nitrogen 46 Kg Phosphorus and 37 Kg Potash per acre.
- For hybrid soil 110 Kg Nitrogen, 58 Kg Phosphorus and 37 Kg Potash per acre is required for successful growing of maize crop.

Source: FOA

Fertilizers

Local | Introduction

- In FY24, Pakistan's GDP (nominal) stood at PKR~105.6trn (FY23: PKR~83.9trn), growing, in real terms, by ~2.5% YoY (FY23: ~0.2% contraction). Industrial activities in FY24 held ~21.3% share in GDP while manufacturing activities made up ~65.4%. In 1QFY25, the country's GDP (nominal) stood at PKR~26.3trn (1QFY23: PKR~24.7trn), growing, in real terms, by ~0.9% YoY (1QFY23: ~2.3%).
- Large-Scale Manufacturing (LSM) is essential for the economic growth considering its linkages with other sectors, as it represented ~73.3% value of all manufacturing activities in FY24. The LSM increased by ~0.9% YoY in FY24 (FY23: ~-10.3%) while it fell by ~1.9% YoY in 1HFY25.
- The Fertilizers sector is classified as a Large-Scale Manufacturing (LSM) industrial component within the industrial sector. In FY24, the Fertilizers sector weight in the QIM was recorded at ~3.9%. The Fertilizers sector in LSM recorded a growth of ~2.0% YoY in 1HFY25, primarily driven by an uptick in Phosphorous fertilizers, production of which clocked in at ~383,000MT (up ~4.2% YoY). Meanwhile, Nitrogenous fertilizers' production recorded at ~1.8mln MT, up ~1.7% YoY.



***Note**: Sectoral shares are based on GVA at current levels.*

Source: PBS, SBP

Fertilizers

Local | Overview

Production | Important Crops							
Crops	**Unit**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**
Cotton	000 bales	9,861	9,178	7,064	8,329	4,910	10,223
Growth	***%***	***-17.5%***	***-6.9%***	***-23.0%***	***17.9%***	***-41.0%***	***108.2%***
Sugarcane	000 MT	67,174	66,880	81,009	88,651	87,981	87,638
Growth	***%***	***-19.4%***	***-0.4%***	***21.1%***	***9.4%***	***-0.8%***	***-0.4%***
Rice	000 MT	7,202	7,414	8,420	9,323	7,322	9,869
Growth	***%***	***-3.3%***	***2.9%***	***13.6%***	***10.7%***	***-21.4%***	***34.8%***
Maize	000 MT	6,826	7,236	8,465	10,635	10,183	9,847
Growth	*%*	***15.7%***	***6.0%***	***17.0%***	***25.6%***	***-4.2%***	***-10.4%***
Wheat	000 MT	24,349	24,946	27,293	26,394	28,161	31,438
Growth	***%***	***-2.9%***	***2.5%***	***9.4%***	***-3.3%***	***6.7%***	***11.6%***

- The crop targets for FY25 offer a strategic outlook on the upcoming fertilizers' demand. For the forthcoming crop year of FY25, production targets stand at ~10.8mln bales for Cotton, ~76.7mln MT for Sugarcane, ~8.7mln MT for Rice, ~9.3mln MT for Maize, and ~33.6mln MT for Wheat.
- As of End-Jan'25, total cotton arrivals amounted to ~5.5mln bales for FY25, while USDA's production numbers for FY25 (i.e., until Feb'25) stand at ~31.6mln MT for wheat and ~10.0mln MT for rice.
- The federal government is focusing on methods to increase productivity by providing loans to small-scale farmers. Fertilizer availability is expected to remain stable for FY25.

Source: PES, PCCC, FAO, USDA

Fertilizers

Local | Overview

- Fertilizers are an essential contributing input to 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. It contributed ~3.9% to the country's Large-scale Manufacturing (LSM) in FY24 and ~0.8% to the overall GDP in CY24.
- Crop outputs, credit disbursement of the agricultural sector, government policies, weather conditions and soil health are a few of the main drivers of demand for the Sector.
- The Sector is dominated by five big players that collectively form ~95.0% of the local offtake, rendering it oligopolistic in nature. All five players are listed on the Pakistan Stock Exchange (PSX) and belong to the Fauji, Engro, Fatima, and Agritech Groups. Recently, in Dec'24, FFC and FFBL have merged together and now operate under a single entity, bringing the number of players down to 4.
- The two main fertilizers by production and offtake are Urea and DAP. Unlike Urea, Pakistan has one major local DAP manufacturer (FFBL, covered later), therefore, the country imports DAP to meet its local demand.

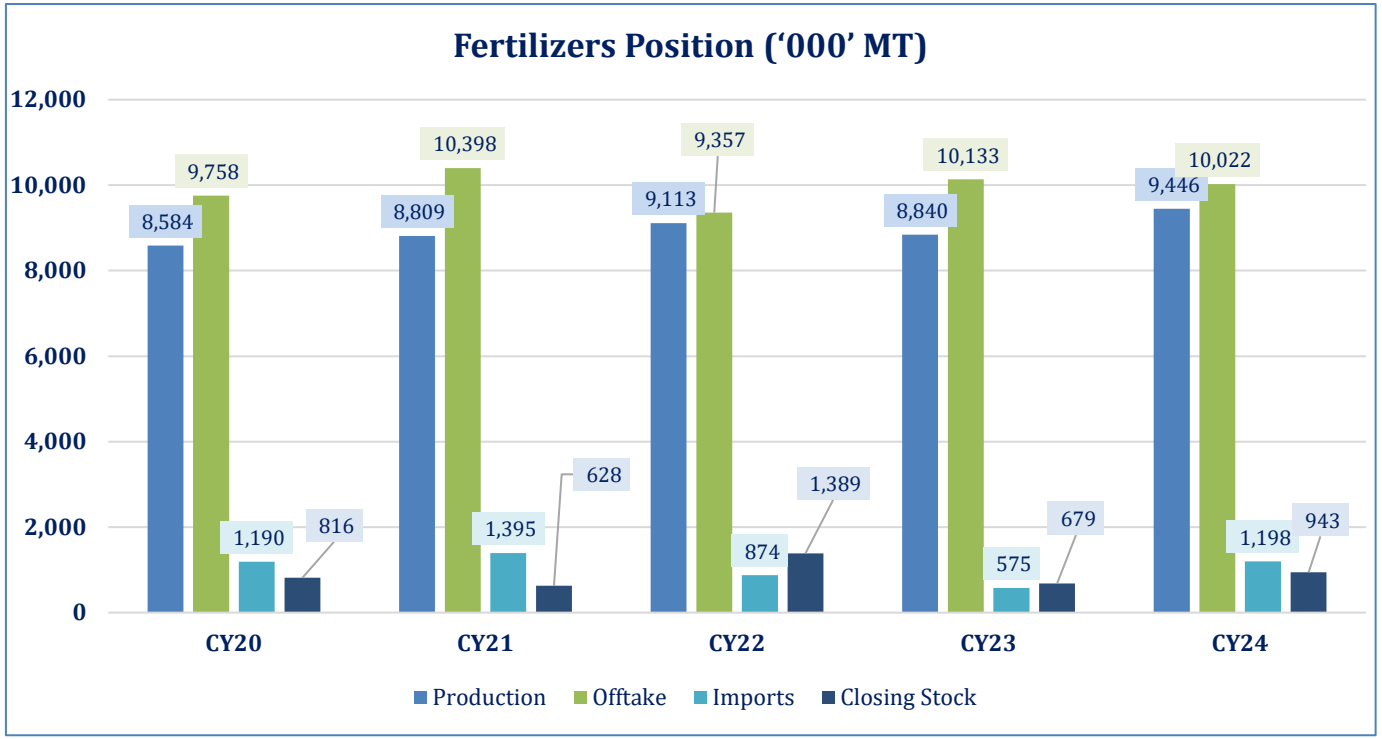
Snapshot	Unit	CY22	CY23	CY24
Revenue*	**PKR bln**	505	720	769
Growth in Revenue	**%**	17%	43%	7%
Contribution to GDP*	**%**	0.8%	0.8%	0.8%
Sector Players	**No.**	6	5	5
Production	**mln MT**	9.0	8.8	9.4
Offtake	**mln MT**	9.3	10.1	10.0
Closing Stock	**mln MT**	1.2	0.5	0.9
Imports	**mln MT**	0.9	0.6	1.2
Structure	Oligopoly			
Regulator	**MNFSR** (Ministry of National Food Security & Research)			
Associations	**FMPAC** (Fertilizer Manufacturers of Pakistan Advisory Council); **NFDC** (National Fertilizer Development Centre)			

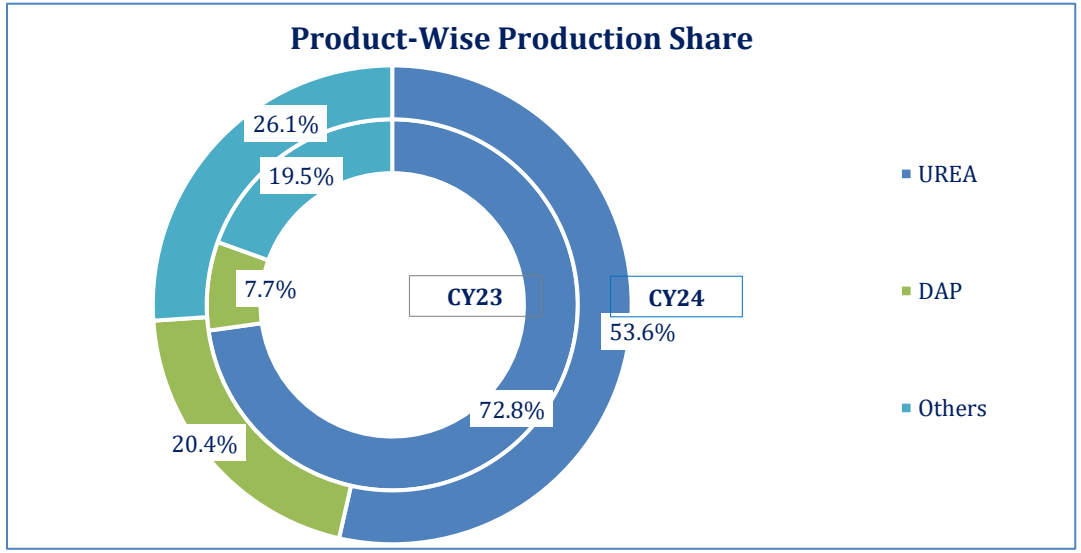
**CY24 Data is prorated or estimated on the basis of available data of 9MCY24. Moreover, FFBL merged into FFC in Dec'24 , bringing the sector players down to 4. CY24 GDP equivalent to FY24.*

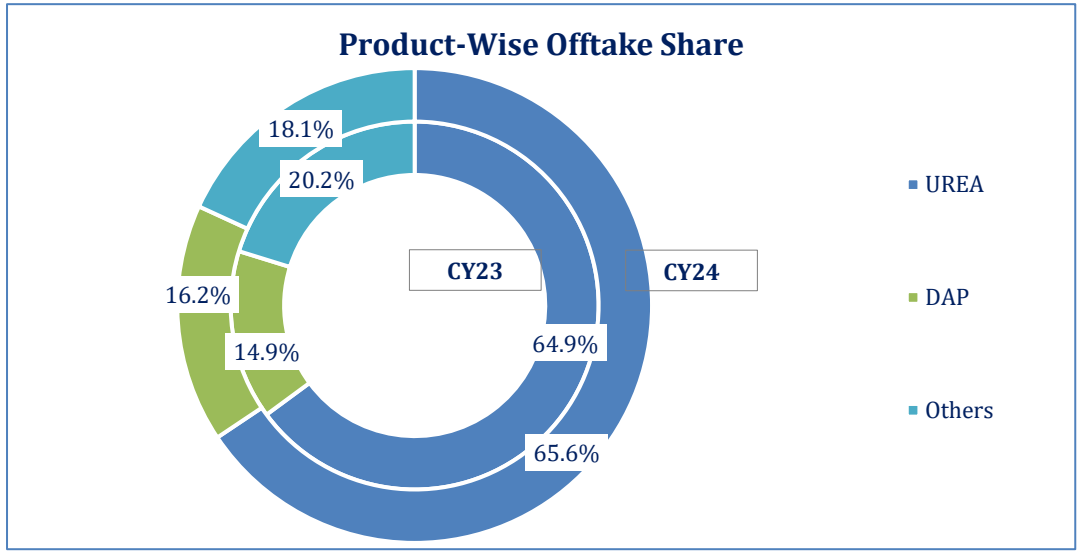
Source: NFDC, PACRA Database

Fertilizers

Local | Fertilizers Position





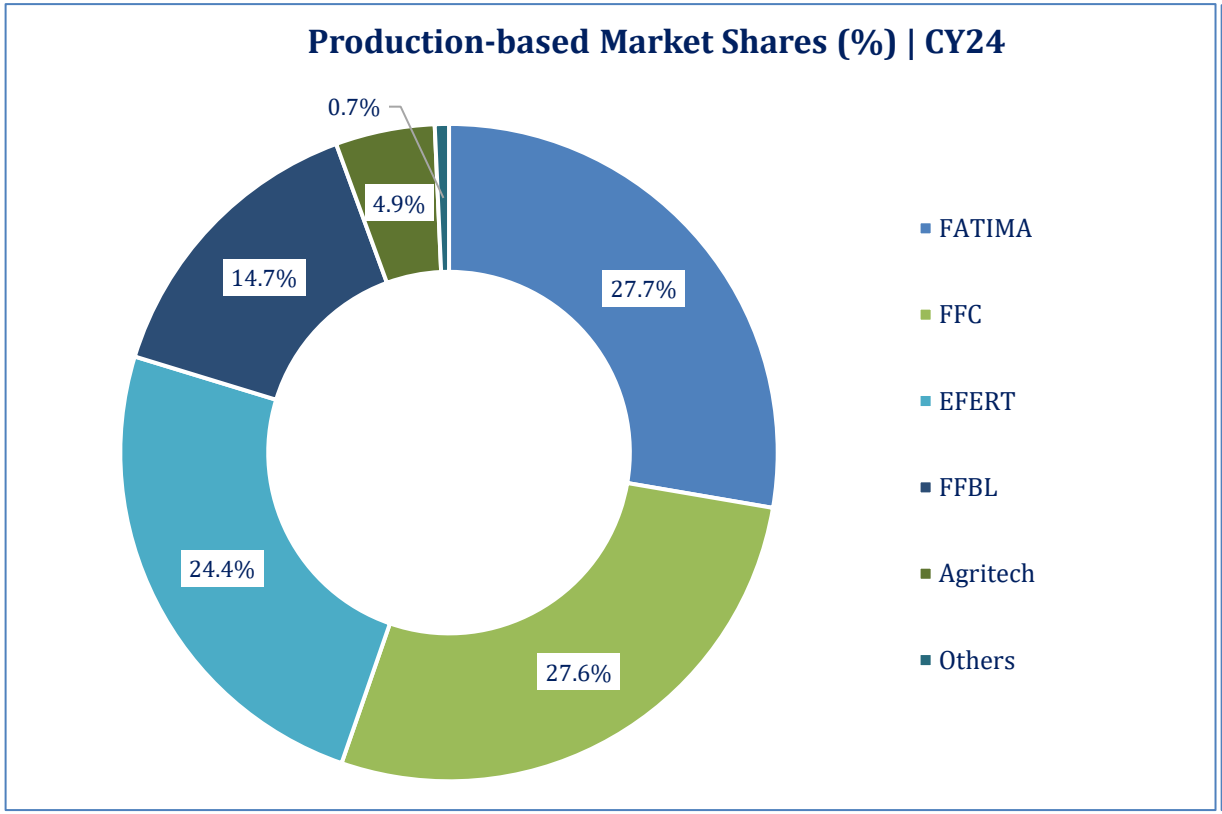


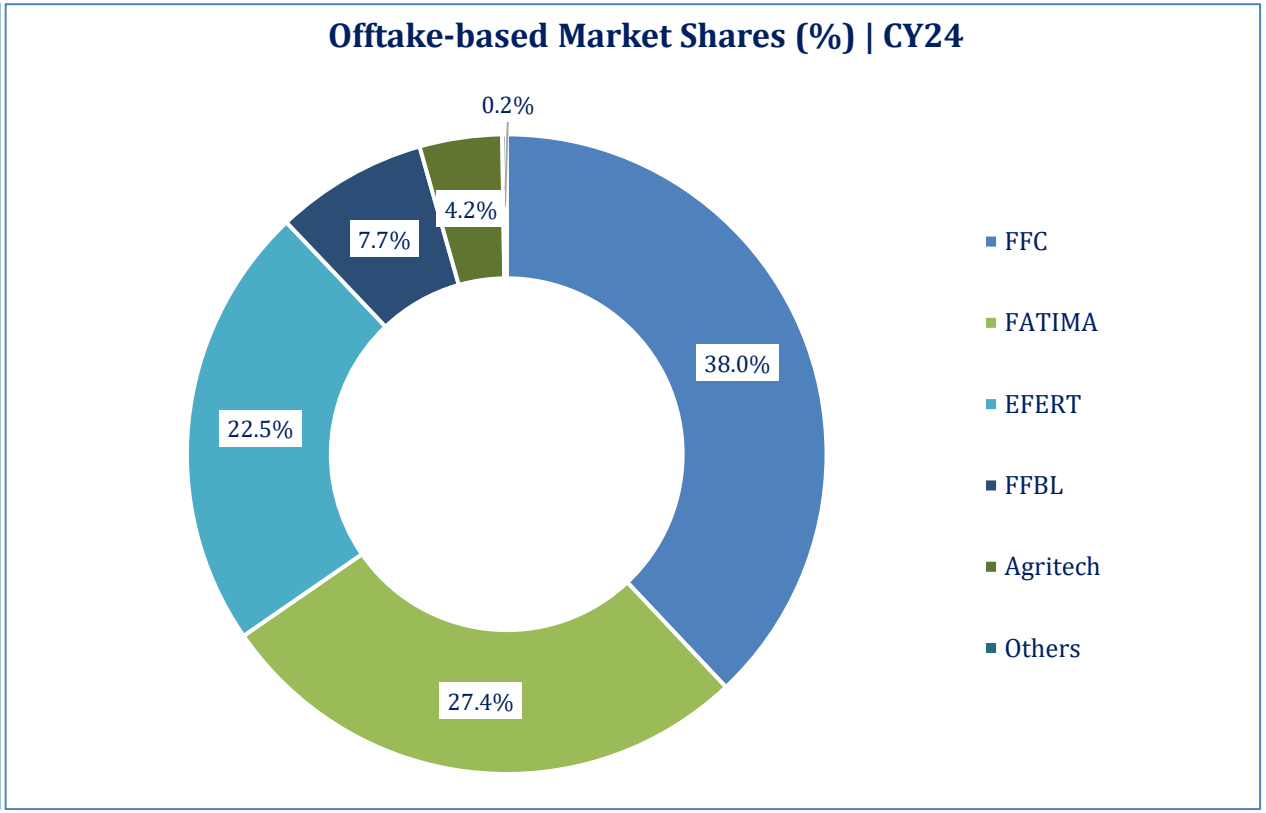
- Average annual fertilizers production of the country during CY20-24 was recorded at ~9.1mln MT, while average offtake levels hover around ~9.9mln MT. For CY24, the country's annual offtake dropped marginally by ~1.1% YoY while production levels were up by ~6.9% YoY.
- In terms of production, Urea had the highest share at~53.6% in CY24, while DAP's share stood at ~20.4%. In terms of offtake, Urea and DAP's share increased to ~65.6% and ~16.2%, respectively.

Source: NFDC

Fertilizers

Local | Market Shares





- In CY24, the Fauji Group (FFC + FFBL) held a substantial share in both the production and offtake of fertilizers, constituting ~42.3% and ~45.7% of the overall market share, respectively (SPLY: ~-40.3% and ~49.3%, respectively).
- During the same year, Engro, FATIMA, and Agritech contributed ~24.4%, ~27.7%, and ~4.9% (SPLY: ~-26.9%, ~28.4% and ~4.3%, respectively), respectively, to the country's overall production of fertilizers.

Source: NFDC

Fertilizers

Local | Production Capacities (CY23)

All figures in '000' MT, unless stated otherwise

Group	Company	Nitrogenous						Phosphorus		Potash		Player-wise Capacity	Player-wise Production
		Urea Capacity	Utilization (%)	NP Capacity	Utilization (%)	CAN Capacity	Utilization (%)	DAP Capacity	Utilization (%)	NPK/NK Capacity	Utilization (%)		
Fauji	Fauji Fertilizer **(FFC)**	2,048	117.4%	-	-	-	-	-	-	-	-	2,048	2,521
	Fauji Fertilizer Bin Qasim **(FFBL)**	551	61.0%	-	-	-	-	650	101.5%	-	-	1,201	996
ENGRO	Engro Fertilizers Limited **(EFERT)**	2,275	101.7%	-	-	-	-	-	-	100	96.3%	2,375	2,410
FATIMA	Fatima Fertilizer Company Ltd.	1,038	94.9%	665	107.3%	870	96.5%	-	-	-	-	2,573	2,538
Agritech Limited		433	67.5%	-	-	-	-	81	95.2%	-	-	514	369
Total Capacity		**6,345**	**-**	**665**	**-**	**870**	**-**	**731**	**-**	**100**	**-**	**8,711**	**8,834**
Total Production/ Average Utilization		**6,448**	**101.6%**	**714**	**107.3%**	**840**	**96.5%**	**737**	**100.8%**	**96**	**96.3%**	**101.4%**	

Source: PSX

Fertilizers

Local | Urea Dynamics

- Average annual urea production of the country during CY20-24 stood at ~6.3mln MT, while average offtake levels hovered around ~6.4mln MT. Demand for Urea spans equally over both the Kharif (Apr-Sep) and Rabi (Oct-Mar) seasons.

- Despite the country being self-sufficient in Urea production, this demand-supply gap arises, time and again, due to gas supply disruptions as indigenous gas is a major input in fertilizers production. Therefore, imported Urea makes up for the shortfall. Imports stood at ~0.2mln MT as of End-Dec'24. 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.

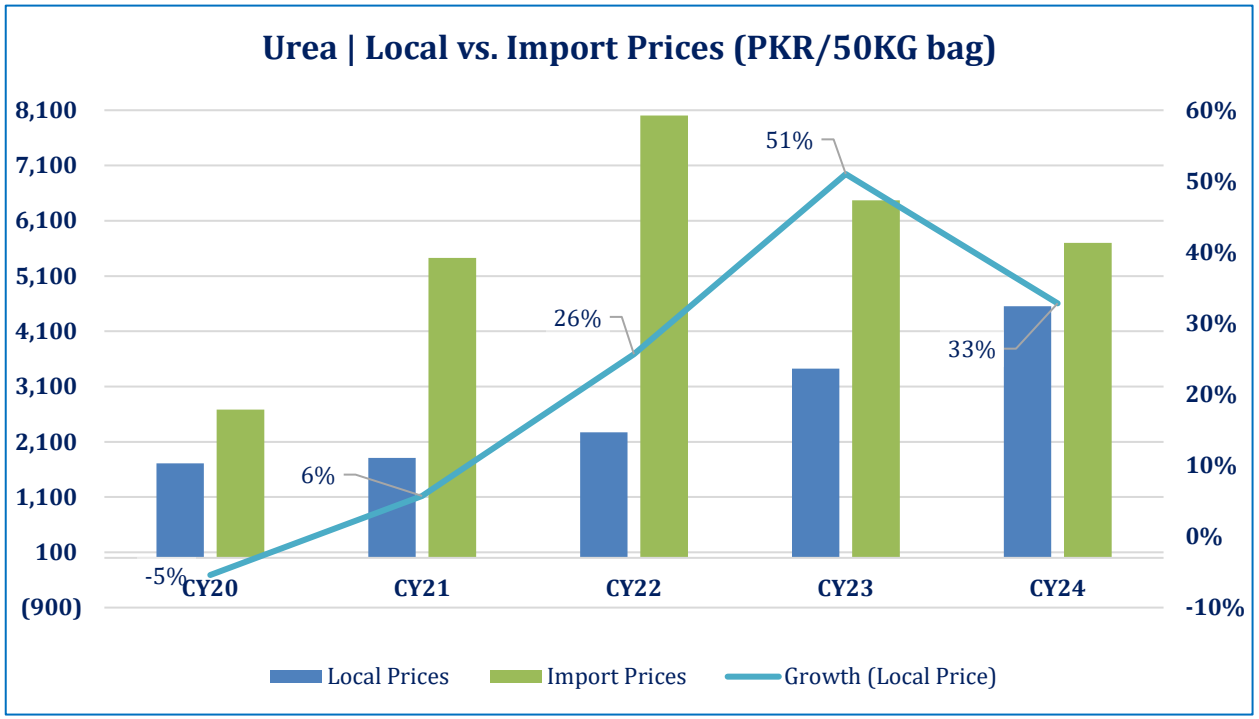
- As of End-Dec'24, closing Urea inventory was recorded at ~0.4mln MT, above the historical average of ~0.3mln MT (CY20-24). To meet the demand during the ongoing Rabi season (Oct'24-Mar'25), domestic production and inventory levels would suffice thus, no imports are forecast for the stated time period.

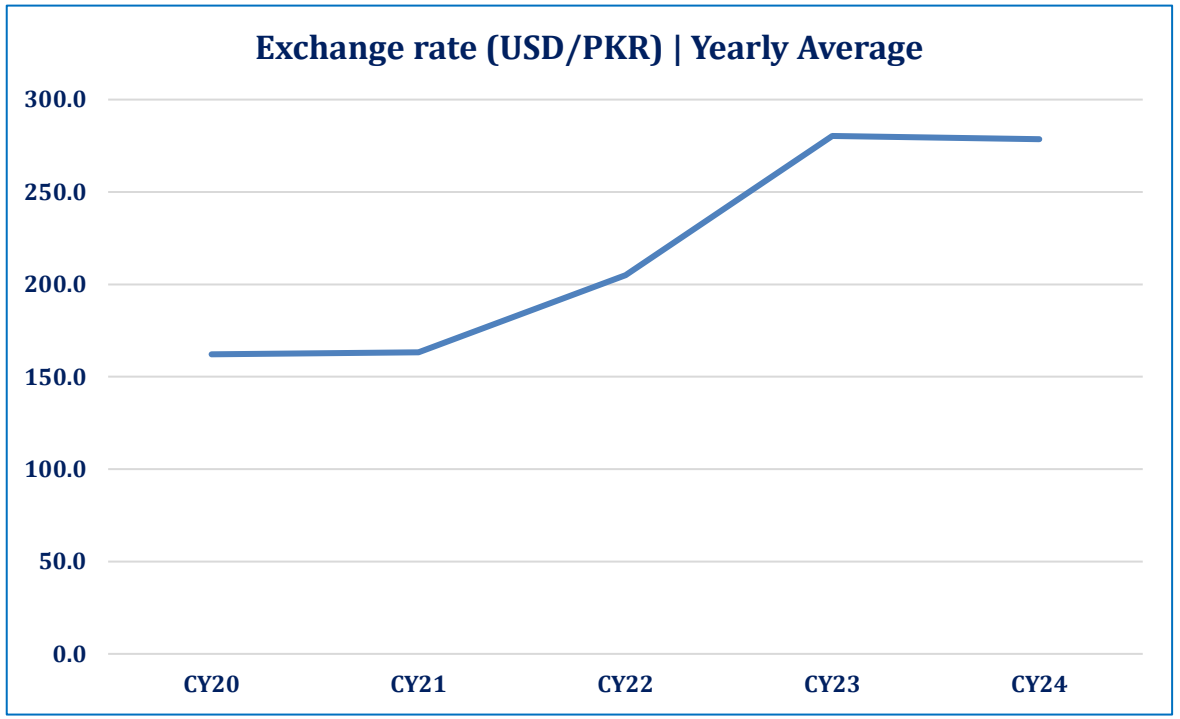
Urea | Annual Position ('000' MT)					
Particulars	**CY20**	**CY21**	**CY22**	**CY23**	**CY24**
Opening Inventory	**204**	**389**	**188**	**319**	**224**
Production	6,135	6,141	6,331	6,433	6,687
Imports	0	0	306	48	173
Total Availability	**6,339**	**6,530**	**6,825**	**6,800**	**7,084**
Less:					
Sales	5,950	6,343	6,505	6,576	6,724
Exports	0	0	0	0	0
Closing Inventory	**389**	**188**	**319**	**224**	**360**

Source: NFDC

Fertilizers

Urea | Local & Import Prices



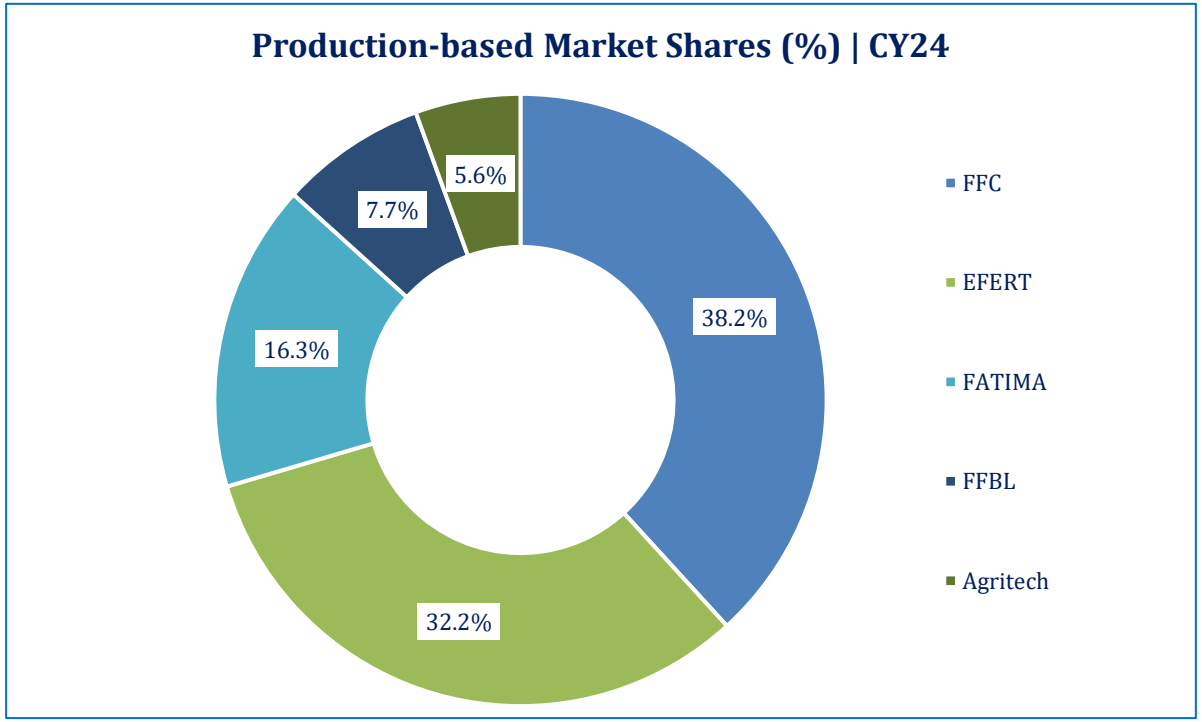


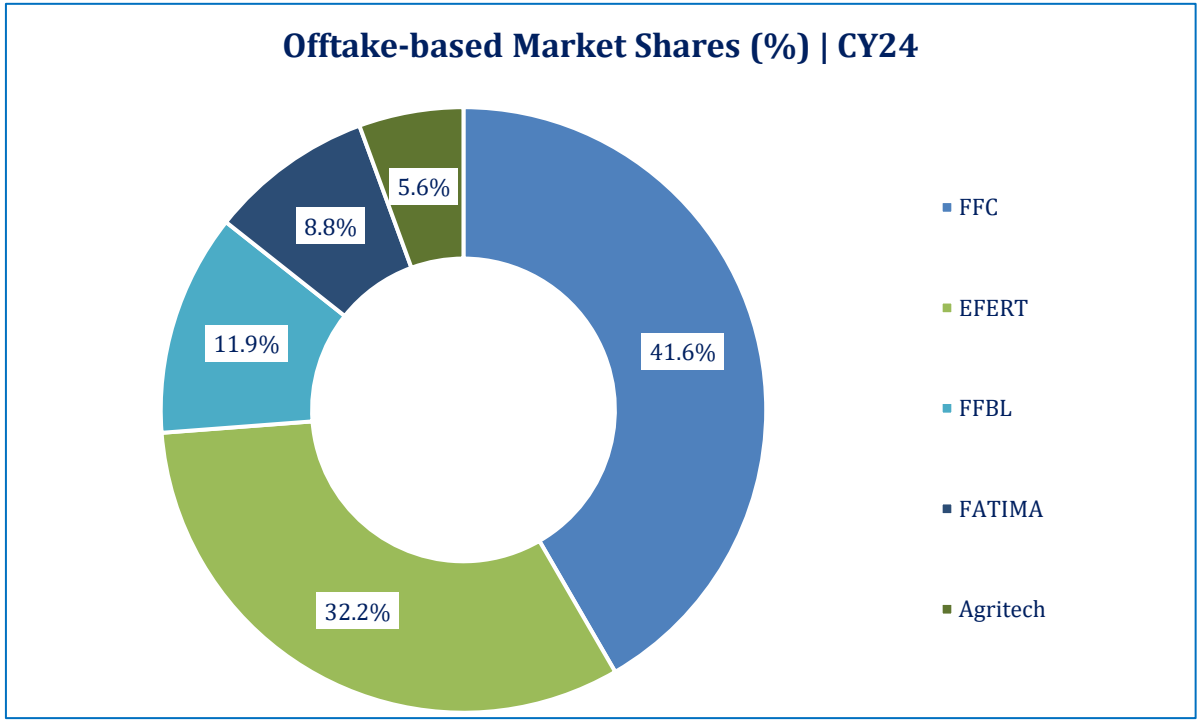
- Local urea prices, on average, hovered around PKR~2,752/50KG during CY20-24, with an increase of ~32.8% YoY in CY24 (recording at PKR~4,552/50KG). Rising input and energy costs contributed to the increase in domestic urea prices.
- The average difference between international and local urea prices recorded at ~25.2% in CY24 (SPLY: ~52.9%), with international prices remaining on the higher side. This delta had maintained a 5-year historical average of ~53.9% during CY19-23.
- The price of imported urea clocked in at PKR~5,700/50Kg in CY24, down ~11.9% YoY. The price of imported urea fell to ~5,700 from PKR~6,468 despite the stable currency as exchange rate stood at PKR ~ 278.6/USD (SPLY: PKR~280.3/USD). The fall in imported prices was on the back of lower international commodity prices.

Source: NFDC

Fertilizers

Urea | Market Players





- In CY24, the collective share of Fauji Group, comprising FFC and FFBL, in the country's total urea production was recorded at ~45.9% (CY23: ~44.0%) while in terms of offtake, it stood at ~53.5% (CY23: ~44.0%)
- In CY24, FFC led the urea market, accounting for ~38.2% (CY23:~39.1%) of the country's total urea production, followed by EFERT at ~32.2% (CY23: ~35.8%) and Fatima at ~16.3% (CY23: ~15.2%), while FFBL and Agritech held smaller shares at ~7.7% (CY23:~5.3%) and ~5.6% (CY23: ~4.6%), respectively.

Source: NFDC

Fertilizers

Urea | Outlook

- During the Kharif season (Apr-Sep'24), urea production was recorded at ~3.2mln MT, which was sufficient to meet the local demand levels of ~2.7mln MT for the season. During Oct-Dec'24, urea offtake was recorded at ~2.0mln MT, ~18.0% higher than SPLY, likely on account of interest-free loans disbursed to farmers through Punjab Government's Kissan Card Scheme.

- During the ongoing Rabi season (Oct'24-Mar'25), local production of urea and the current inventory available would suffice for the local demand estimated at ~3.7mln MT.

Urea Position (000 MT)	Actual	Estimated*			Rabi Season
	Oct-Dec'24	Jan'25	Feb'25	Mar'25	Oct-Mar'25*
Opening Stock	622	360	257	183	622
Imports	0	0	0	0	0
Production	1,746	509	449	544	3,247
Total Availability	**2,368**	**869**	**706**	**727**	**3,869**
Offtake	2,008	612	523	558	3,700
Closing Inventory	360	257	183	169	169

**NFDC estimates.*

Source: NFDC, MoF

Fertilizers

Local | DAP Dynamics

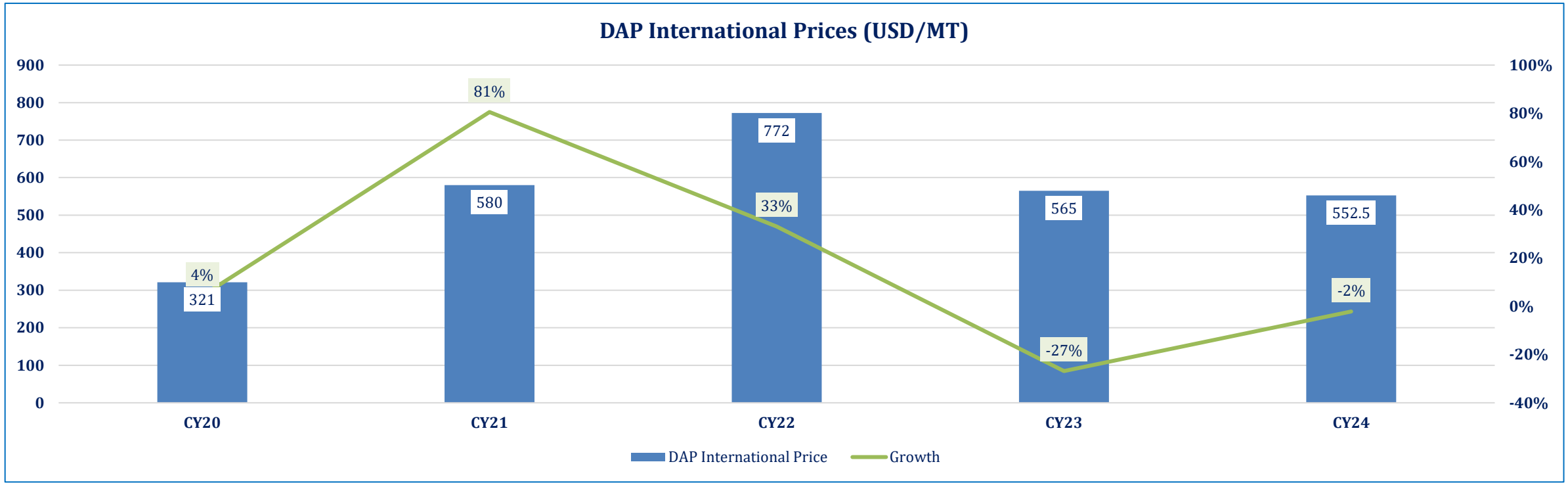
- Average DAP fertilizer availability during CY20-24 stood at ~1.9mln MT, while average offtake levels hovered around ~1.7mln MT during the same period. An increase of ~10.9% YoY in CY24 was recorded in overall supply, on account of higher local production as well as imports.
- In CY24, annual DAP production and imports increased by ~23.4% and ~80.4% YoY, respectively, owing to a lower base effect in the previous year. This was the case as a result of exorbitantly higher global DAP prices in CY22 (covered later).
- DAP imports rose by ~80.4% to ~0.9mln MT in CY24, likely on the back of Punjab Government's PKR~75.0bln Kissan Card Scheme launched in Jun'24, as July, August and September saw major surges in DAP imports. However, the supply and demand for the fertilizer are not yet close to the levels recorded during CY20-21.

DAP | Annual Position ('000' MT)					
Particulars	**CY20**	**CY21**	**CY22**	**CY23**	**CY24**
Opening Inventory	492	135	192	494	149
Production	740	790	850	683	843
Imports	1,016	1,174	665	480	866
Total Availability	**2,249**	**2,099**	**1,707**	**1,656**	**1,858**
Less:					
Offtake	2,114	1,907	1,213	1,508	1,756
Closing Inventory	**135**	**192**	**494**	**149**	**102**

Source: NFDC, Agri Punjab

Fertilizers

DAP | Global Price Dynamics



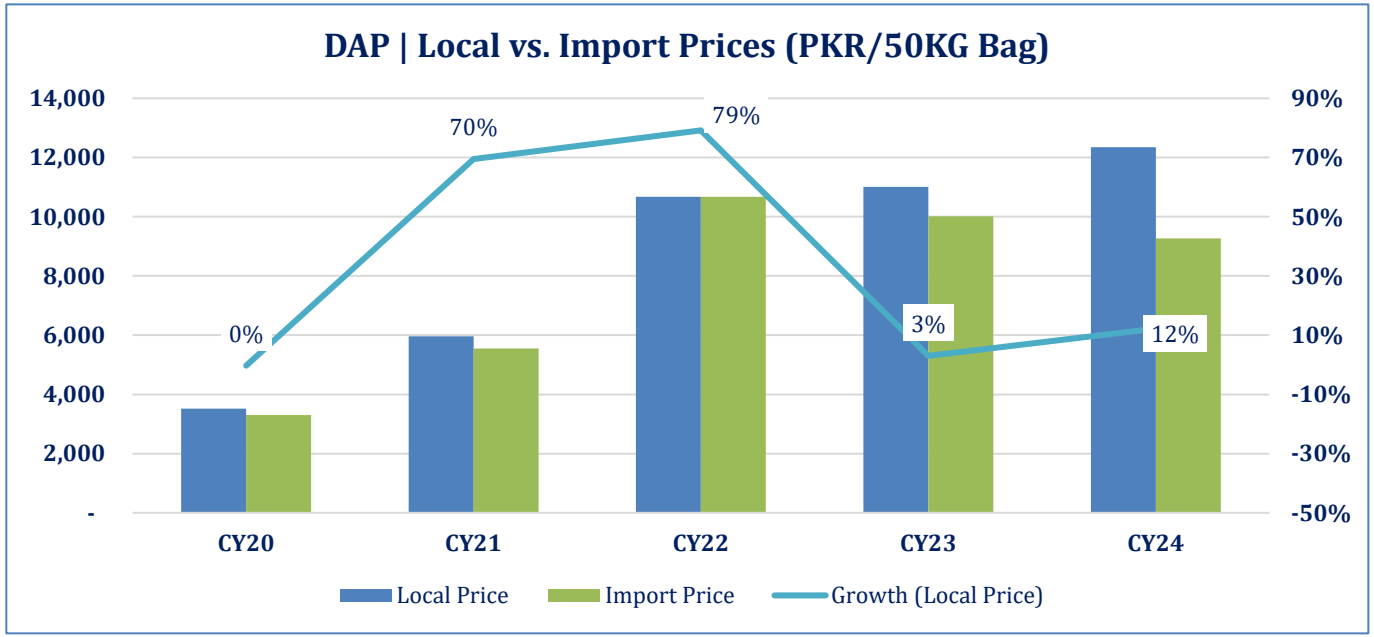
- Over the past five years (CY20-24), average global DAP prices stood at USD~541.9/MT. In CY24, DAP prices were recorded at USD~552.5/MT (CY23: USD~564.8/MT), down ~2.2% YoY. Commodity prices had risen after global supply chain disruptions in CY22, driving a surge in DAP prices in CY22.

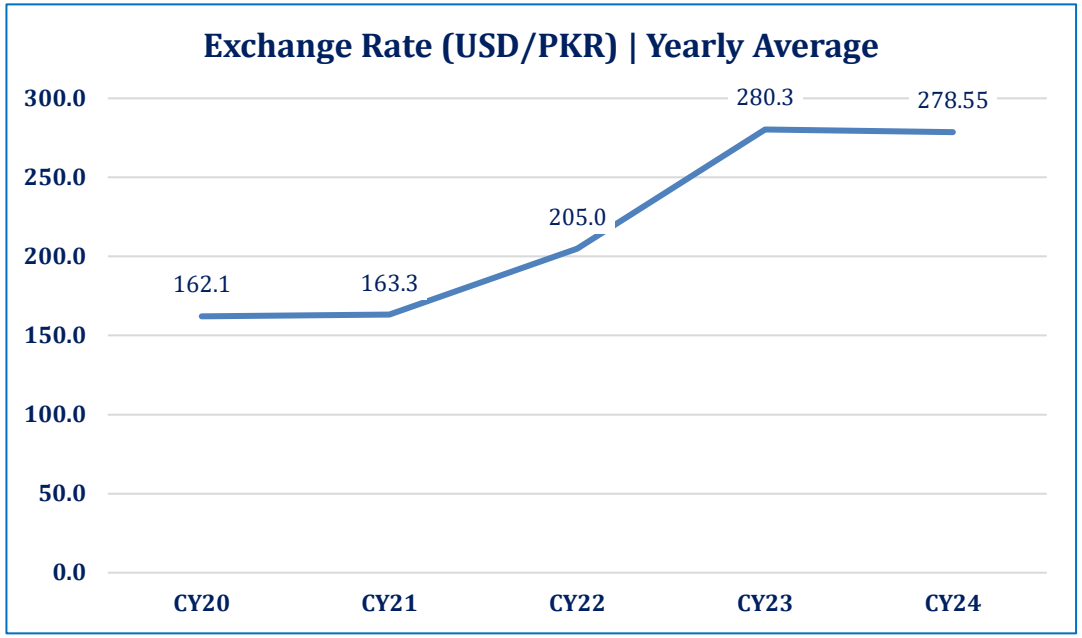
- Farmers have slowly restarted using DAP again as previously, increased prices of raw materials had caused the demand to shrink resulting in lowered imports and production. However, prices continue to remain higher than the average 5-year historical levels but as the prices of substitute fertilizers has also increased, demand for DAP may see gradual increase in future.

Source: NFDC

Fertilizers

DAP | Local Price Dynamics





- In CY24, local DAP prices were up ~12.2% YoY (these had averaged at PKR~6,937/50KG during CY19-23). Since the country imports phosphoric acid as the main raw material for DAP production, global prices for the said raw material and exchange rate volatility, besides local energy prices, also impact local prices.
- In CY23, global average export price for phosphoric acid clocked in at USD~900.3/MT, compared with USD~1,256.0/MT in SPLY (or ~39.6% lower YoY). Although, Pakistan imported ~28.0% YoY lower raw material on quantitative basis, the PKR depreciated ~36.7% YoY against the greenback during the same period, resulting in the delta between imported and local prices of DAP recording at ~12.0%. In CY24, the delta widened to ~33.2% on the back of higher energy prices and ~11.9% YoY higher global raw material prices.
- On the other hand, import prices during CY24 were down ~7.4% YoY, while these had averaged at PKR~6,515/50KG during CY19-23 (explained previously).

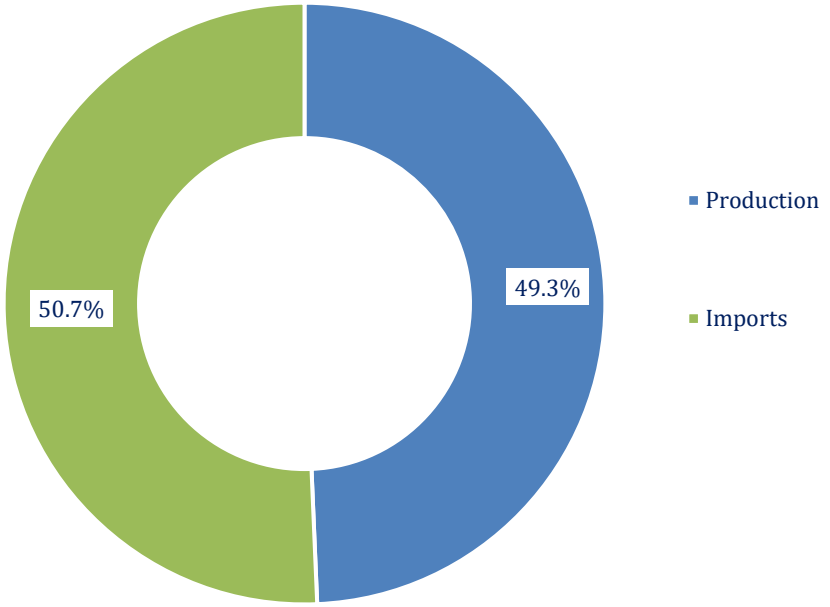
***Note**: HS code for Phosphoric Acid 2809.2010; for DAP 3105.3000.In FY23, Pakistan imported ~98.2% of the raw material form Morocco; FY24: ~98.3%. For DAP, ~87.0% was imported from KSA and Morocco in FY23; ~74.7% in FY24.*

Source: NFDC, WB, WITS, SBP, PBS

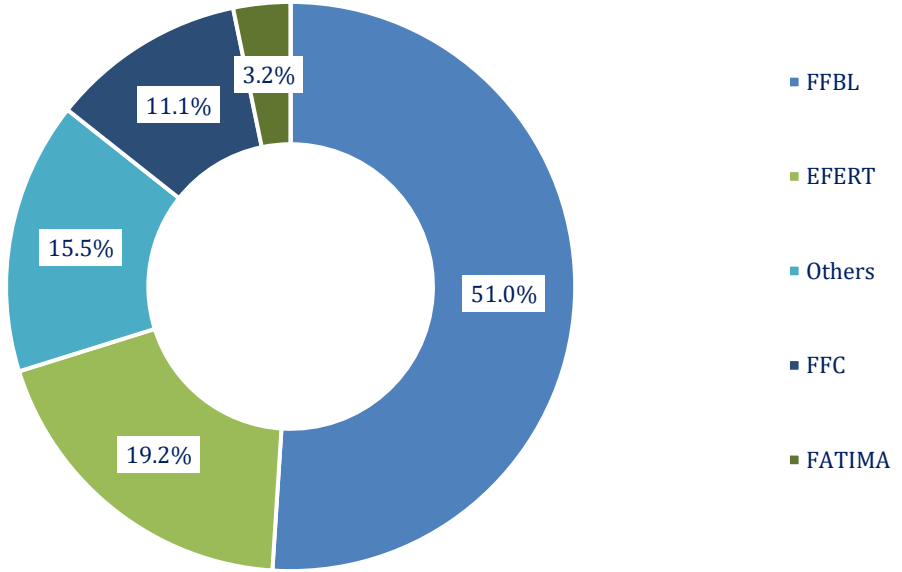
Fertilizers

DAP | Market Players

DAP Availability Composition (%) | CY24



Offtake-based Market Shares (%) | CY24



- In terms of total DAP offtake, ~51.0% (CY23: ~63.5%) was accounted for by FFBL in CY24 since it is the only major local manufacturer of DAP. Following it were EFERT and FFC sustaining second and third market positions with ~19.2% (CY23: 22.2%) and ~11.1% (CY23: ~7.7%) shares, respectively (in terms of DAP offtake).
- Collectively, the share of Fauji Group recorded at ~62.1% with respect to the total DAP offtake in the country in CY24 (CY23: ~71.2%).

Source: NFDC

Fertilizers

DAP | Outlook

- For the ongoing Rabi season (Oct-Mar'25), DAP availability (inclusive of imports) stands at ~1.0mln MT, which appears to be enough given the estimated offtake of ~0.9mln MT.
- The closing inventory of DAP at the end of the last Kharif season (Apr-Sep'24) was ~0.4mln MT, higher than that recorded in previous season. This was majorly on account of lower offtake levels.
- Total DAP imports during the upcoming Rabi season are estimated to be ~0.2mln MT (Oct'24-Mar'25: ~0.5mln MT), marking a ~52.3% YoY decline, likely due to a better production estimate (compared with offtake levels) of the same amount. Moreover, offtake levels are expected to be ~23.8% higher YoY on account of lower international DAP prices.

DAP Position ('000' MT)	Actual	Estimated*			Rabi Season
	Oct-Dec'24	Jan'25	Feb'25	Mar'25	Oct-Mar'25*
Opening Stock	383	102	116	77	383
Imports	182	55	0	0	237
Production	225	40	52	75	392
Total Availability	**790**	**197**	**168**	**153**	**1,012**
Offtake	688	81	91	92	951
Closing Inventory	102	116	77	61	60

**NFDC estimates.*

Source: NFDC

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).

Gas Infrastructure Development Cess

The 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.

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

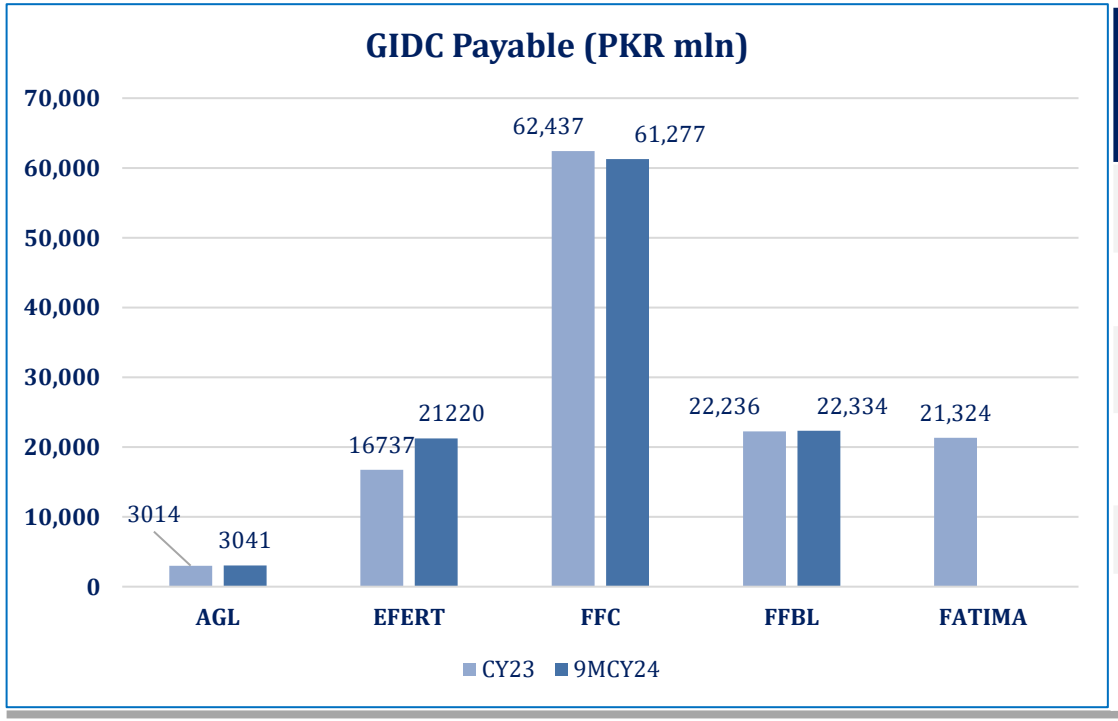
Through Finance Act 2023, the rate of Super Tax has been enhanced to 10% and is retrospectively applicable to Financial Year 2022. Prior to Finance Act, 2023, all types of fertilizers including DAP were exempt from sales tax. As of DAP Finance Act 2023, 5% sales tax has been imposed with condition that no refund of accessible input tax shall be allowed.

Source: MoF, PSX, OGRA

Fertilizers

Business Risk | Gas Infrastructure Development Cess

- 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, the Sector is also subjected to GIDC. The Sector uses gas as both feed stock and fuel (for electricity generation, steam) and is currently subject to PKR5/MMBTU GIDC rate (down from PKR~300/MMBTU for feedstock and PKR~100/MMBTU for fuel stock since CY14).
- A comparison of GIDC payables for CY23 and 9MCY24 reveals that these fell in general except EFERT's (owing to an increase in overall payables by ~26.8%). Overall, the GIDC payables increased by ~6.4%* during this time to PKR~107.9bln.
- 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

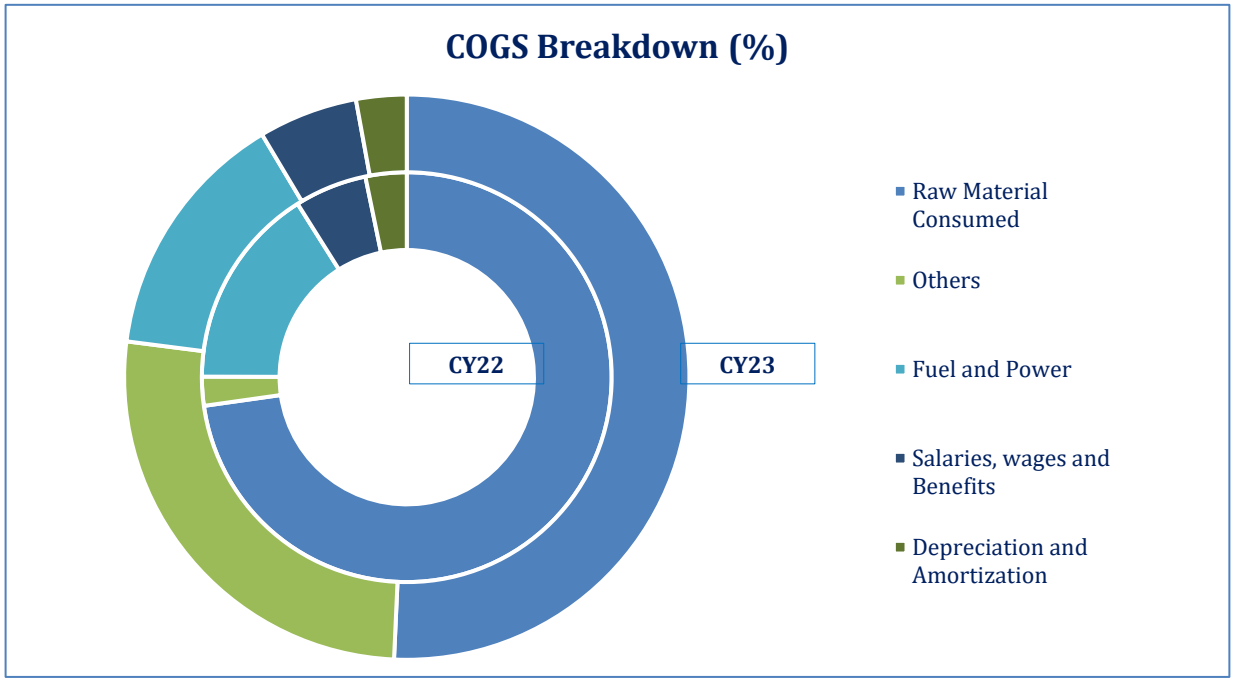
**Analysis excludes FATIMA for a like-to-like comparison. **Engro Fertilizer receives gas from SNGPL at a rate of USD ~0.7/MMBTU for feedstock in FY24.*

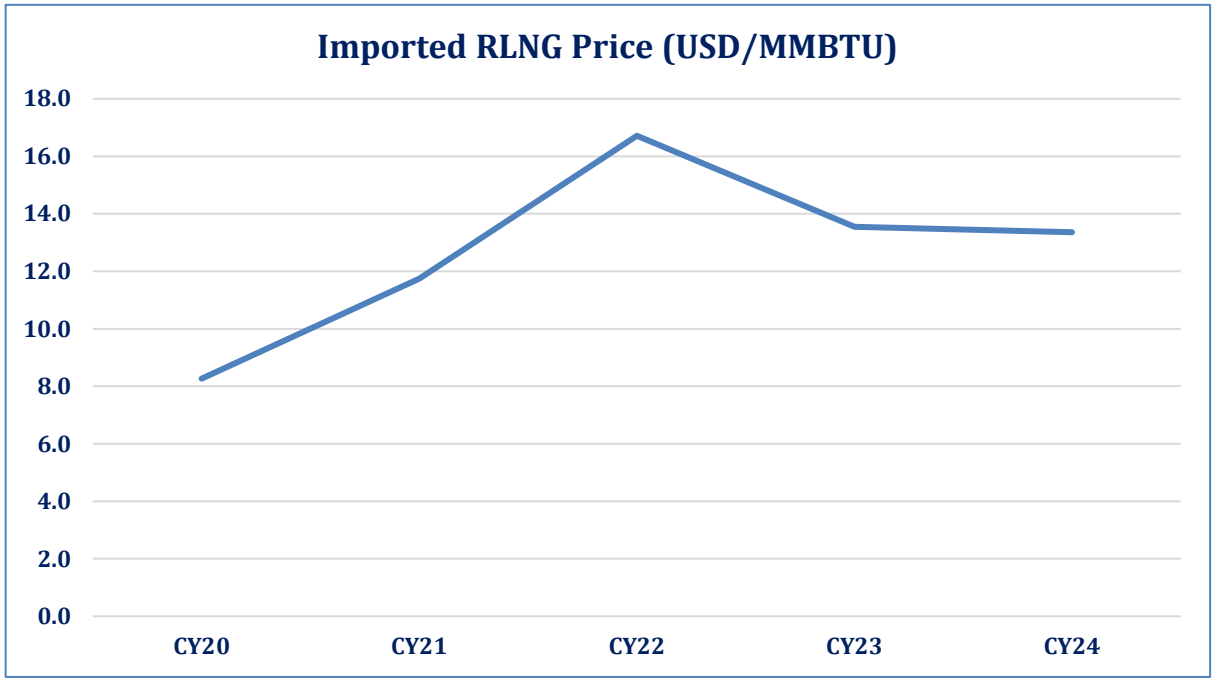
Note: *Prices for gas supply are notified on respective dates: Pak-Arab (15 Feb, 2023), Engro Fertilizers (SNGPL) and FFBL (08 Nov,2023), Engro (Mari), Fatima and FFC (27 Oct, 2024).*

Source: PSX, OGRA

Fertilizers

Business Risk | Cost Structure





- The largest contributor to the sector's direct costs is raw material, as depicted above in the figure. Raw material costs, comprising local natural gas and imported raw material prices, significantly impact the direct costs of the sector.

- During CY24, average global RLNG prices fell to USD~13.4/MMBTU, with a YoY downtick of ~1.4%. The recovery in prices came on the back of lower consumption levels owing to milder weather conditions. This also resulted in lower import prices for Pakistan, given a largely stable currency (~0.6% YoY PKR appreciation against the USD).

***Note**: Global natural gas price is determined by averaging out the prices of natural gas in the US, EU, JPN. Imported RLNG prices have been sourced from OGRA.*

Source: WB, PSX, OGRA, PACRA Database

Fertilizers

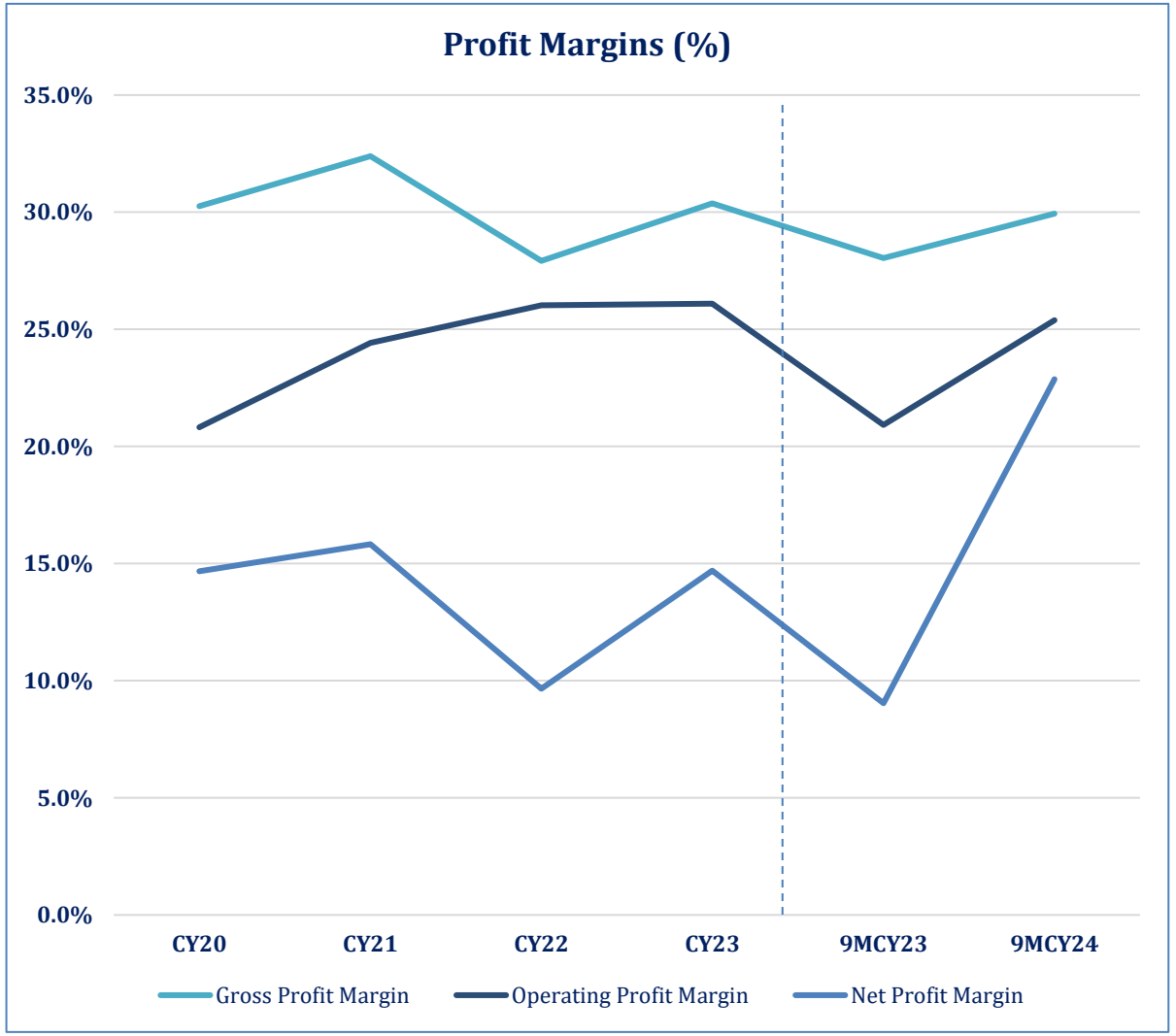
Business Risk | Margins

- The Sector's margins have historically remained strong, attributable to the Sector's international competitiveness, inelastic demand prospects due to its essentiality for food security, and the Government's supportive measures in the form of subsidies on indigenous gas supply, etc.

- The Sector's average gross profit margins during CY19-23 clocked in around ~30.0%. In CY23, average gross profit margins stood at ~30.4%, while dropping slightly to ~29.9% during 9MCY24 (SPLY: ~28.0%).

- Meanwhile, the Sector's average operating profit margins during CY19-23 hovered around ~23.6%. During CY23, average operating margins increased slightly to ~26.1%, and remained intact at ~25.4% during 9MCY24 (9MCY23: ~20.9%).

- The Sector's historical average net margins stood at ~13.4% during CY19-23, and recorded a healthy growth to record at ~14.7% in CY23 (SPLY: ~9.7%), while in 9MCY24, these stood at ~22.9% (9MCY23: ~9.0%). This was likely on account of the increase in other income portion, majorly comprising the Sector's return on local and foreign investments, such as bank deposits, etc., seeing as interest rates remained on the higher end in CY23. In 9MCY24, the rates declined from ~22.0% as of End-Jun'24 to ~ 17.5% as of End-Sep'24.



Note: *Data is representative of five major players FFC, EFERT, FFBL, FATIMA & Agritech. Margins are revenue-weighted.*

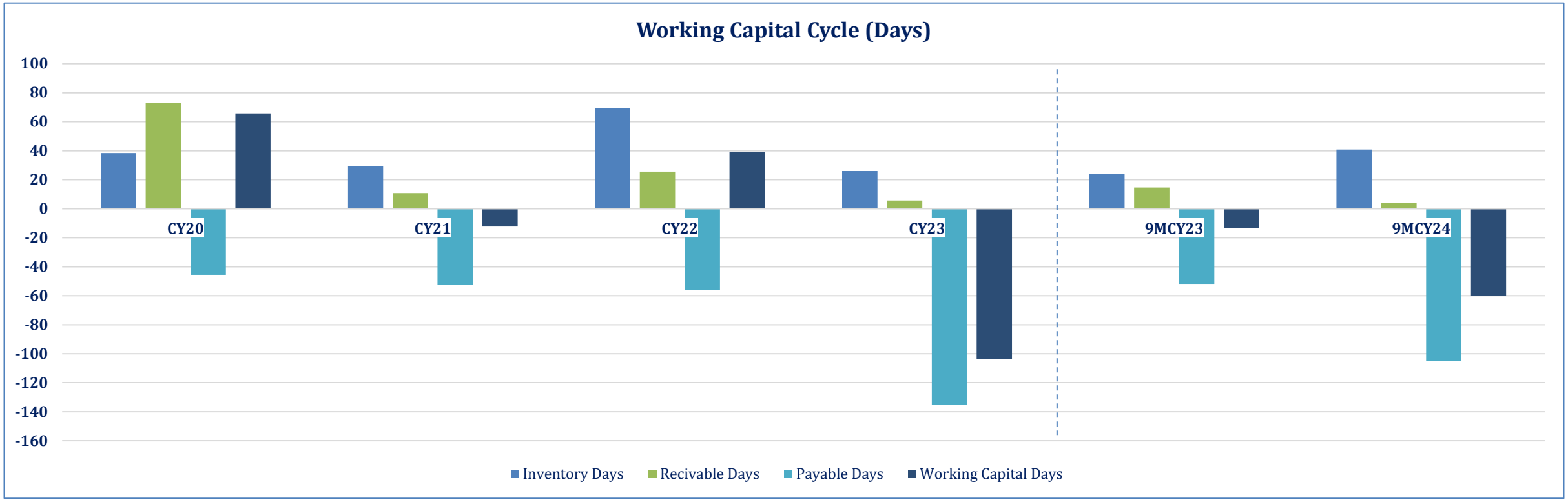
Source: PACRA Database, PSX

Fertilizers

Financial Risk | Working Capital Management

- The Sector's inventory days declined from ~69 days in CY22 to ~26 days in CY23, likely due to an uptick in the offtake levels during the same period. Receivable days also decreased from ~26 days in CY22 to ~6 days in CY23 due to favorable credit policies.

- The Sector's inventory days increased from ~24 days in 9MCY23 to ~41 days in 9MCY24, likely due to higher bulked-up inventory owing, in turn, to lower demand. Payable days also increased from ~52 days in 9MCY23 to ~105 days in 9MCY24 due to higher requirement of working capital and delayed payments, causing the overall working capital days to record at ~-60 days in 9MCY24 (SPLY: ~-13 days).



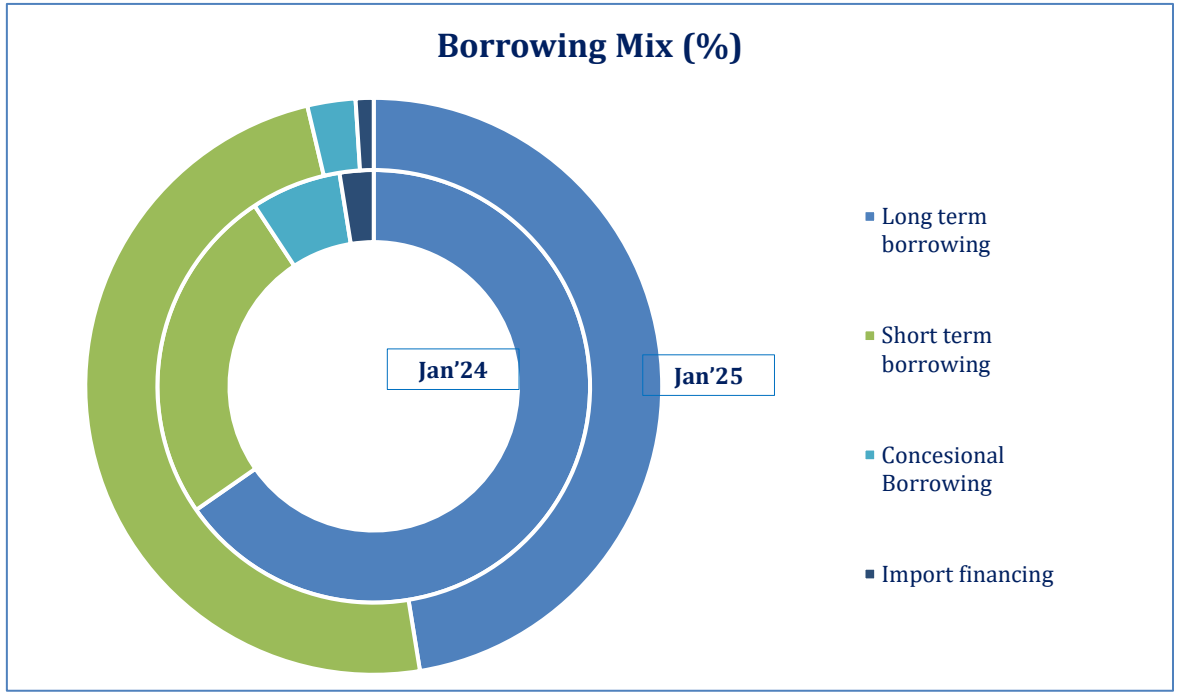
Note: *Financials of five major players (EFERT, FFC, FFBL, AGL & FATIMA) have been used. Data is revenue-weighted.*

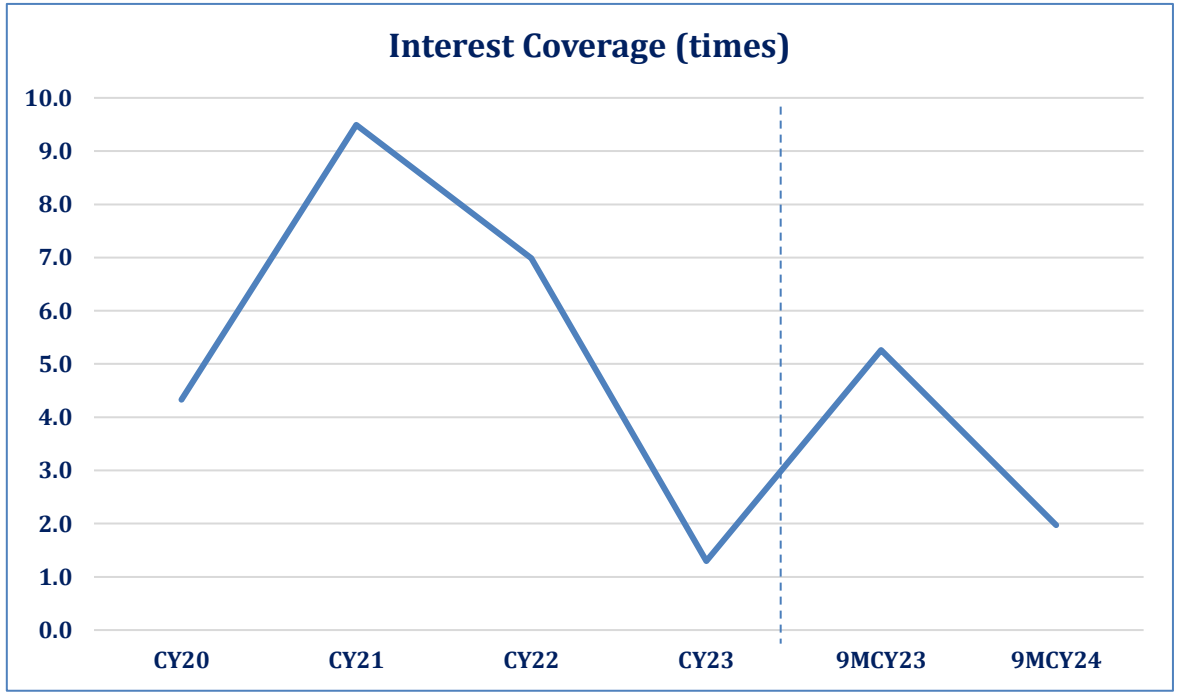
Source: PACRA Database

Fertilizers

Financial Risk | Borrowings

- The Sector's borrowing mix, as of End-Jan'25, comprised Long-Term Borrowings (LTBs) of ~47.4% while the share of Short-Term Borrowings (STBs) were recorded at ~48.9%. These recorded ~35.7% and ~259.6% YoY increase, respectively, while overall borrowings rose ~86.9% YoY to PKR~153.3bln during the said period.
- The Sector can be characterized as moderately-leveraged, with the leverage ratio increasing to ~35.6% as of End-Sep'24, (SPLY: ~23.7%) on account of ~ 86.5% YoY higher short-term borrowings. Historically, Sector's leverage had recorded at ~62.4% during CY18-23, with the exception of CY19.
- The average interest coverage of the Sector was recorded at ~5.6x during CY18-22, whereas in CY23, this fell to ~1.3x (CY22: ~7.0x), in line with high interest rates. Meanwhile, in 9MCY24, this was recorded at ~2.0x (SPLY: ~5.3x), despite lower interest rates, on account of aforementioned higher borrowings.





Note: *Financials of five major players (EFERT, FFC, FFBL, AGL & FATIMA) have been used for interest coverage. Coverage is revenue-weighted. Borrowing Mix refers to SBP Classification "Manufacture of Fertilizers & Nitrogen Compounds".*

Source: SBP, PSX, PACRA Database

Fertilizers

Duty Structure

The table below details the taxes and duties implemented on the fertilizers sector in the years FY24 and FY25. With respect to local DAP production, the country imports Phosphoric Acid as the main raw material, on which CD, ACD, ST and IT are ~0.0%, ~2.0%, ~18.0% and ~0.0%, respectively, as of FY25.

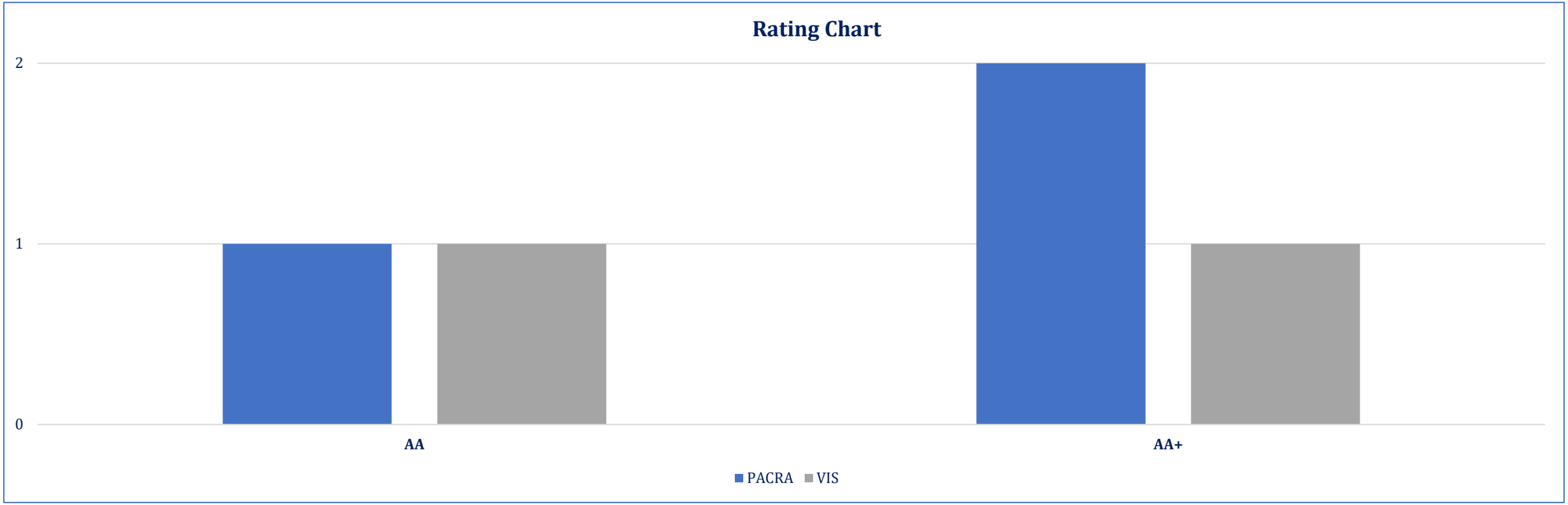
HS Code	Description	Custom Duty (CD)		Additional Custom Duty (ACD)		Sales Tax (ST)		Income Tax (IT)	
		FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
3102.1000	Urea	0%	0%	2%	2%	18%	18%	12%	12%
3105.3000	Diammonium Phosphate (DAP)	0%	0%	2%	2%	18%	18%	12%	12%
3104.3000	Potassic Fertilizers	0%	0%	2%	2%	18%	18%	12%	12%

Source: FBR, NFDC

Fertilizers

Rating Curve

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

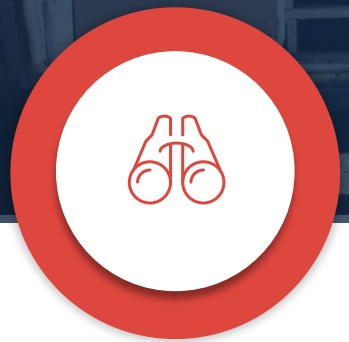


Source: PACRA Database

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

SUBSTITUTES

- No/ low threat of substitutes
- Potential of nano or biofertilizers

SUPPLIERS

- Medium power
- Many raw materials imported
- Strategic partnership with local suppliers
- No control over gas supply

COMPETITIVE RIVALRY

- Low
- 5 big players enjoying economies of scale

Source: PACRA Database

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)
- >100% capacity utilization

- 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

- 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

- Growing population and food consumption
- 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

- As Pakistan's economy is expected to grow by ~3.0% in FY25 and ~4.0% in FY26 (IMF estimates), the potential for the fertilizers sector remains high, considering its significant role in the country's agriculture sector. Agriculture contributed ~24.0% to GVA in FY24 on current levels.
- Pakistan produces high-quality nitrogenous, phosphorus, and potash fertilizers in an oligopolistic market. However, the government's export ban keeps the industry's focus on fulfilling domestic demand to ensure local crop production and food security. This restriction, sometimes, results in missed export opportunities, particularly for urea.
- Going forward, reduced crop production for FY25, such as for cotton, are a concern. Provincial governments have also expressed dissatisfaction with the reduced budget (FY25) for the agriculture sector. However, lack of rainfall and other environmental factors may drive demand for various fertilizers to enhance yield, which could boost sales for the Sector.
- Pakistan produces urea at a lower cost compared to imported alternatives. However, this is not the case for DAP. Previously, FFBL was the only local producer of DAP, but following its merger with FFC, FFC now holds the highest market share for both urea and DAP. This consolidation may lead to operational efficiencies, potentially reducing the cost of local DAP, which is an essential fertilizer for Rabi crops such as wheat.
- The upcoming Rabi season is expected to be promising, as domestic urea production is projected to fully meet demand, eliminating the need for imports. However, DAP imports will still be necessary due to local supply shortages.
- Although the market is highly stable, with a few dominant players controlling the market share, gas supply remains a critical concern as Pakistan's indigenous reserves are depleting. Fertilizer companies will need to explore alternative energy sources such as RLNG or coal gasification. However, these require substantial capital investment and are costly to establish.
- Looking ahead to FY25, lower policy rates are expected to increase demand for fertilizers, potentially leading to improvements in large-scale manufacturing (LSM), including the fertilizers sector. Additionally, lower borrowing costs may encourage fertilizer producers to invest in upgrading their processes, which had previously been delayed due to high interest rates.
- However, PKR depreciation, rising gas prices, and increasing raw material costs continue to pose risks to the sector. Moreover, stringent government policies, such as higher sales taxes, may also remain a challenge for the sector.

Fertilizers

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