### BUSINESS HIGHLIGHTS

- For 9M 2019, EFERT’s Profit After Tax (PAT) stood at **PKR 10,511 M** vs 9M 2018 PAT of **PKR 12,249 M**

- Lower profitability was due to:
  - Lower Volumetric Sales
  - Higher Gas Cost
  - One-off deferred tax charge

- The GMs clocked in at **32%** in 9M 2019, **2.5ppt down** last year as increase in input prices have outpaced the prices

- Finance cost was higher at **PKR 3,229 M** (vs PKR 1,420 M last year) as a result of higher policy rates and devaluation.

- During the quarter, the disposal of one of the subsidiaries, Engro Eximp FZE, was concluded. On a consolidated basis, the Company recorded a net loss of **PKR 263 M** mainly on account of tax on disposal gain

### Financial Highlights 9M 2019 vs 9M 2018

<table>
<thead>
<tr>
<th></th>
<th>9M 2019</th>
<th>9M 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>77,462</td>
<td>69,215</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>24,955</td>
<td>23,896</td>
</tr>
<tr>
<td>Finance Cost</td>
<td>(3,229)</td>
<td>(1,420)</td>
</tr>
<tr>
<td>Profit / (Loss) After Tax</td>
<td>10,510</td>
<td>12,249</td>
</tr>
</tbody>
</table>

### Sales KT (9M 2019 vs 9M 2018) & Exports

<table>
<thead>
<tr>
<th>Product</th>
<th>9M 2019</th>
<th>9M 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urea</td>
<td>1,496</td>
<td>1,331</td>
</tr>
<tr>
<td>Urea Export</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Phosphates</td>
<td>303</td>
<td>320</td>
</tr>
<tr>
<td>SFB</td>
<td>176</td>
<td>145</td>
</tr>
</tbody>
</table>

Security Analyst Briefing
3Q 2019
UREA MARKET ENVIRONMENT

- Urea industry sales for 9M 2019 clocked in at **4,330 KT**, up by 5% vs SPLY.

- EFERT market share stood at 31% vs. 36% in 9M 2018 primarily on account of operation of LNG based plants and sale of imported urea.

- EFERT 9M 2019 sales were **1331 KT**, down 11% vs 1,496 KT SPLY, owing to recent uncertainty in market regarding urea prices linked with GIDC decision.

- Industry urea production for 9M 2019 stood at **4,585 KT** VS **4,096 KT** SPLY.

- LNG based plants added ~**641 KT** to the industry production due to allocation of subsidized LNG by the Government (Subsidy : PKR 1,250/bag / PKR 2B).

- On the international front, urea prices are currently at USD 280/T (Landed eqv. of PKR 2,600/bag). Local urea prices are currently at PKR 2,040/bag.

---

**Urea Industry (KT)**

<table>
<thead>
<tr>
<th></th>
<th>9M 2019</th>
<th>9M 2018</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Inv.</td>
<td>186</td>
<td>260</td>
<td></td>
</tr>
<tr>
<td>Production</td>
<td>4,585</td>
<td>4,096</td>
<td></td>
</tr>
<tr>
<td>Imports</td>
<td>100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>-</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>4,330</td>
<td>4,132</td>
<td>5%</td>
</tr>
<tr>
<td>Closing Inv.</td>
<td>492</td>
<td>130</td>
<td></td>
</tr>
</tbody>
</table>

**Market Share 9M 2019**

- Engro: 31%
- Fauji: 48%
- Agri Tech: 5%
- Fatimafert: 6%
- Fatima: 7%
- NFML: 3%

---
PHOSPHATES MARKET ENVIRONMENT

- 9M 2019 industry sales stood at 1,181 KT vs 1,236 KT in 9M 2018 (down 4%). Lower industry offtake was mainly due to escalating DAP international prices and rupee devaluation.
- EFERT’s market share clocked in at 26% for 9M 2019 vs 27% in SPLY. EFERT recorded sales of 303 KT during 9M 2019 vs 320 KT in 9M 2018.
- Industry inventory stands at 397 KT vs. 749 KT in September 2018.
- International DAP prices have dropped from a high of USD 422/T in January-2019 to USD 340/T by Q3 2019 end although a few players have contracted vessels at marginally lower rates.

SFB MARKET ENVIRONMENT

- Total sales for SFB stood at 176 KT vs sales of 145 KT in 9M 2018, an increase of 21%.
- EFERT’s potash market share clocked in at 63% vs. 46% in SPLY on account of competitive pricing vs private importers.
Efert’s Production is consistently growing

Higher Gas avails have led to higher production

EFert’s 9M production this year is the highest in last 5 years despite 2 turnarounds during the year
Despite significant delta vs. international Urea prices, the Fertilizer industry continues to transfer benefit to the farmer, which translates to **PKR 20 Billion** for the year, over and above the feed gas price subsidy.
Business Challenge: Increasing costs

**Increasing gas price**
Has resulted in increase in price of commodities

- **FP Gas increase** 54%
- **PP Gas increase** 17%
- **Concc. Gas increase** 32%

*Effective from 1 Jul 2019*
*Avg YoY increase 2019*

**Axle Load regime**
Has resulted in increase in price of commodities

- **Expected Freight Cost Increase** ~32%

*Avg increase 2019*
Business Challenges: Subsidy and GIDC

- Fertilizer industry continues to face challenges in the form of prior subsidy despite the fact that the subsidy given on fertilizers was timely passed on to farmers whereas the government is yet to pay back the subsidy (Industry - PKR 20 B, Efert PKR 6.5 B)

<table>
<thead>
<tr>
<th>Subsidy ageing</th>
<th>PKR B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 2 years</td>
<td>2.4</td>
</tr>
<tr>
<td>2 - 3 years</td>
<td>3.6</td>
</tr>
<tr>
<td>More than 3 years</td>
<td>0.5</td>
</tr>
<tr>
<td>EFert Subsidy Receivable</td>
<td>6.5</td>
</tr>
</tbody>
</table>

**GIDC:** Amendment Ordinance was signed by the President on August 29, 2019 which was based on the following principles:

- 50% waiver in outstanding GIDC payables up to 31st December 2018
- 50% reduction in prospective GIDC Feed and Fuel rate
- No GIDC on concessionary gas going forward
- Retrospective settlement of the new plants that are on ‘concessionary price gas’ was not catered to in the proposed GIDC settlement

- However, the Government withdrew the GIDC Amendment Ordinance 2019 and the matter is now in Supreme Court.
Business Challenges: Sales Tax Refunds

- Refundable created due to **mismatch between input and output tax**:
  - Urea sales: **PKR 2.4B / year** (PKR 60/bag)
  - DAP sales: **PKR 1.3B / year** (PKR 111/bag)

- The tenor of the settlement of these refunds create **working capital issues** and thereby increase finance cost for the Company.

In Sept 2019, EFERT was successfully issued another ST Refund Bond of PKR 694M (inclusive of ST Refunds Bonds of Agritrade of PKR 383M) for its outstanding sales tax refunds. This led to aggregate recovery of PKR 2 B (including ST Refund bonds issued in first tranche of PKR 1.4 B).

- The company is incurring financial losses due to lower returns on the bonds and their lack of secondary market.
Achievements

- **1SAP Go-Live** with effect from 1st of October. This is by far the largest SAP S/4HANA business transformation project in the private sector in Pakistan.

- **Best Corporate Report Award** EFERT secured second position for the best corporate report in the Chemical sector in August 2019

- **Corporate Social Responsibility Award 2019** EFERT was awarded the Annual National Forum for Environment & Health (NFEH) Corporate Social Responsibility Award in September 2019. This is one of Pakistan’s premier recognition awards and winning this accolade is testimony to the high level of focus and commitment by EFERT towards corporate social responsibility.

- **10 million safe manhours** EFERT’s Commercial Division achieved a record breaking 10 million safe manhours in September 2019. This was a result of our commitment to achieve highest Safety Standards which has always been at the forefront of our values. Dupont Rating 4 clearly shows that teams are fully committed to achieve Safety excellence and would not compromise on safety at any cost.
SMART SUBSIDY
SOLUTION TO CHALLENGING FARM ECONOMICS AND LOW AGRI PRODUCTIVITY
Provide smart subsidy for agricultural inputs to 3 million small farmers (up to 5 Acres)

PTI Government’s vision

National Financial Inclusion Strategy

| 3. Provide smart subsidy for agricultural inputs to small farmers |
|------------------------|-----------------|-----------------|
| **Development of subsidized Agri. input Scheme for Small Farmers through Digital Channels** | March 2019 | MoNFSR, MoF, MoITT, Provincial agri depts. & BORS, agri input suppliers, SBP, and Banks |
| **Notify list of authorized agri. input vendors at union council** | | |
| **Budget allocation over a period of 5 years for covering subsidized average annual input cost for farmers with land holding of up to 5 acres** | June 2019 | MoF |
| **Mechanism for monitoring of the scheme to be developed** | July 2019 | MoNFSR |
| **Payments to farmers and vendors to be made using digital platform (M-wallets/E-Account)** | July 2019 | MoNFSR, SBP and Banks |
Historically, domestic urea demand hovers between 5.6-5.8 Mn Tons vs supply of 5.5 Mn Tons from indigenous gas based plants. The shortage of 0.3 Mn Tons of urea has been historically bridged by expensive imports and urea production with imported gas.
Plants based on indigenous gas have **idle capacity** which can be utilized to produce incremental urea at **best efficiency index** eliminating the need for imported urea and imported gas for urea production.

![Capacity vs Production Chart](attachment:chart.png)

- **Capacity** vs **Production**

  - **FFC**
    - Capacity: 2.3
    - Production: 3.1
  - **FATIMA**
    - Capacity: 0.6
    - Production: 0.5
  - **EFERT**
    - Capacity: 1.9
    - Production: 3.1

*0.9 MT capacity of LNG based plants is not included*
FOREX outflow on Urea import & LNG plus subsidy on the said is aggravating the local economic condition.

**Misdirected agri subsidy**

**Burden on BoP**

**PKR 44 B**
FOREX outflow on import of urea and LNG

**Burden on fiscal deficit**

**PKR 21 B**
Subsidy on imported urea and urea produced from LNG

**Fiscal Deficit and Trade Deficit**

- **Fiscal deficit**
- **Trade deficit (PKR B)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Fiscal Deficit (PKR B)</th>
<th>Trade Deficit (PKR B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 15</td>
<td>0.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>FY 16</td>
<td>2.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>FY 17</td>
<td>4.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>FY 18</td>
<td>6.0%</td>
<td>8.0%</td>
</tr>
<tr>
<td>FY 19</td>
<td>8.0%</td>
<td>10.0%</td>
</tr>
</tbody>
</table>
LNG based production is only leading to inventory glut

Closing inventory as at Oct 15, 2019 stands at ~0.7 MT which is almost equal to the production of LNG based plants.

- Government is supplying 70 mmSCFD LNG to Fertilizer Plants
- LNG ALLOCATED TO UREA PLANTS
- CONSISTENT 9M OPERATIONS
- Production of 0.7 MT YTD
- Closing inventory of 0.7 MT as at Oct 15, 2019
- LED TO HIGH CLOSING INVENTORY

0.7 MT LNG Based production = 0.7 MT Industry inventory
Excess Urea: Potential for Exports

Export potential of

USD 210M

In 2017, ECC approved exports of 635 KT earning the country FX of USD 150M

Current Production with LNG Plants

Expected sales

Proven Past Record of Exports

700 KT Export potential

5.8

6.5
90% Farmers most impacted

90% of the farmers have a land holding size of **less than 12.5 acres**

52% of the farm area is held by remaining **10% of the rich land lords**

No. of Farmers vs landholding

- 0% to 10%: 10%
- 10% to 25%: 25%
- 25% to 65%: 65%
- 65% to 100%: 90%

- 0% to 52%: 52%
- 52% to 29%: 29%
- 29% to 19%: 19%

- No of farmers: Upto 5 acres, 5 to 12.5 acres, 12.5 and above
- Farm area: Upto 5 acres, 5 to 12.5 acres, 12.5 and above
Disproportionate impact of nation-wide subsidy

Any subsidy that aims to reduce nationwide fertilizer cost will pass significant balance to the rich zamindars

Subsidy Share (%)

- Kissan upto 5 acres
- Medium scale
- Zamindars

- Kissan upto 5 acres: 52%
- Medium scale: 29%
- Zamindars: 19%
What can be done?-Kissan upto 5 acres

FREE UREA

100% subsidy on Urea for small scale farmers

Expenditure on subsidizing LNG and imported urea can be used to provide free of cost urea to 65% of total farmers nationwide holding 19% of the land area
Expenditure on subsidizing LNG and imported urea can be used to subsidize urea price by **PKR 860/bag** to **90% of total farmers** nationwide holding 48% of the land area.
What can be done?

Small and Medium Scale Farmer

PRICE CAN BE REDUCED TO PKR 1,400/BAG WITH ONLY PKR 640/BAG AS SUBSIDY TO 90% OF THE FARMERS

Subsidy of PKR 640/B will allow prices to settle at subsidized rates in 2016-17 of PKR 1,400/B

*as a % of total LNG import
What can be done?-nation-wide

Expenditure on subsidizing LNG and imported urea can be used to subsidize Urea price by **PKR 350/bag** to all farmers nationwide.

<table>
<thead>
<tr>
<th>Kissan upto 5 acres</th>
<th>Small scale farmers 5 to 12.5 acres</th>
<th>Zamindars</th>
</tr>
</thead>
<tbody>
<tr>
<td>19%</td>
<td>52%</td>
<td>29%</td>
</tr>
</tbody>
</table>

**PKR 350/bag subsidy on Urea**
Will bring down the price of urea to **PKR 1,690/bag**
PROPOSED SUBSIDY MECHANISM
The proposed subsidy disbursement mechanism is as follows:

1. **Sticker based subsidy**
   - A sticker-based subsidy mechanism should be introduced which would be executed through a web portal.

2. **Fertilizer Companies to generate unique codes**
   - The portal would enable fertilizer marketing companies to generate unique codes for their products.

3. **Code redeemed digitally**
   - The farmers could redeem 25 bags per CNIC and disburse the subsidy proceeds into the farmers easy paisa account.

This mechanism has worked on phosphates subsidy given earlier this year.
Targeted urea subsidy termed viable option to support small farmers

LAHORE: Government should directly subsidise small farmers instead of using 'blanket' subsidy to ease impact of rising prices of urea on growers, industry officials said on Monday.

The officials said blanket subsidy in the form of reduction in gas tariff or adjustment of taxes means lowering of urea prices for every user whether a big landlord or medium-sized landholder. Across-the-board urea price cut would only help large and powerful farmers, which would definitely not be a wise decision, they added.

As much as 52 percent of agricultural lands in the country are owned and operated by a mere 10 percent of farmers who are the large ‘zamindars’ (landlords).

"Any across-the-board downward revision of urea prices benefits these landlords, who otherwise can afford using the farm nutrients through their own means," an official said, requesting anonymity. "In fact, the government is already providing huge subsidy on urea manufacturing by importing expensive liquefied natural gas (LNG) and selling it at subsidised rates to its ‘favourite’ companies at the expense of taxpayers."
Key Takeaways and looking ahead.....

- **Smart subsidy mechanism** to improve balanced nutrient usage and resultant yields:
  - Subsidizing urea and DAP for farmers holding upto 12.5 acres
  - Improving use of Potash

- **Export potential** to be reaped as there is excess capacity available in domestic Urea industry
THANK YOU
Q & A