SECTOR STUDY | 25th FEBRUARY 2025

Together. Creating Value.

Fertilizers

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Fertilizers

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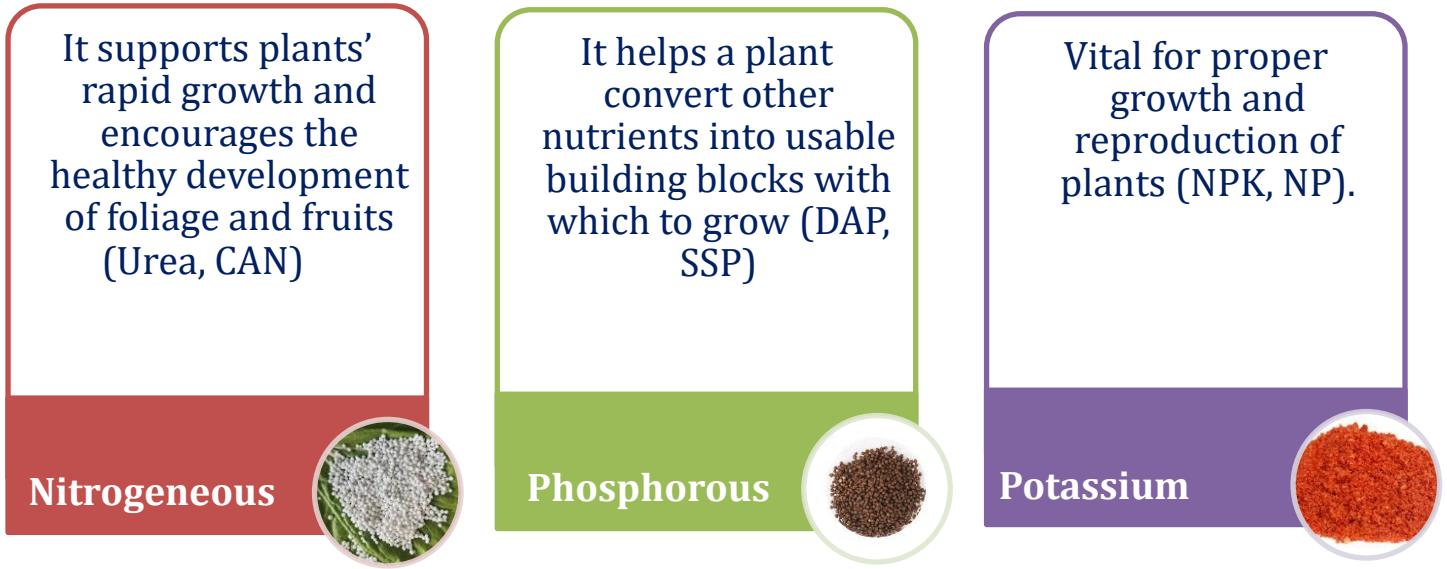
Fertilizers

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 fertilizers.

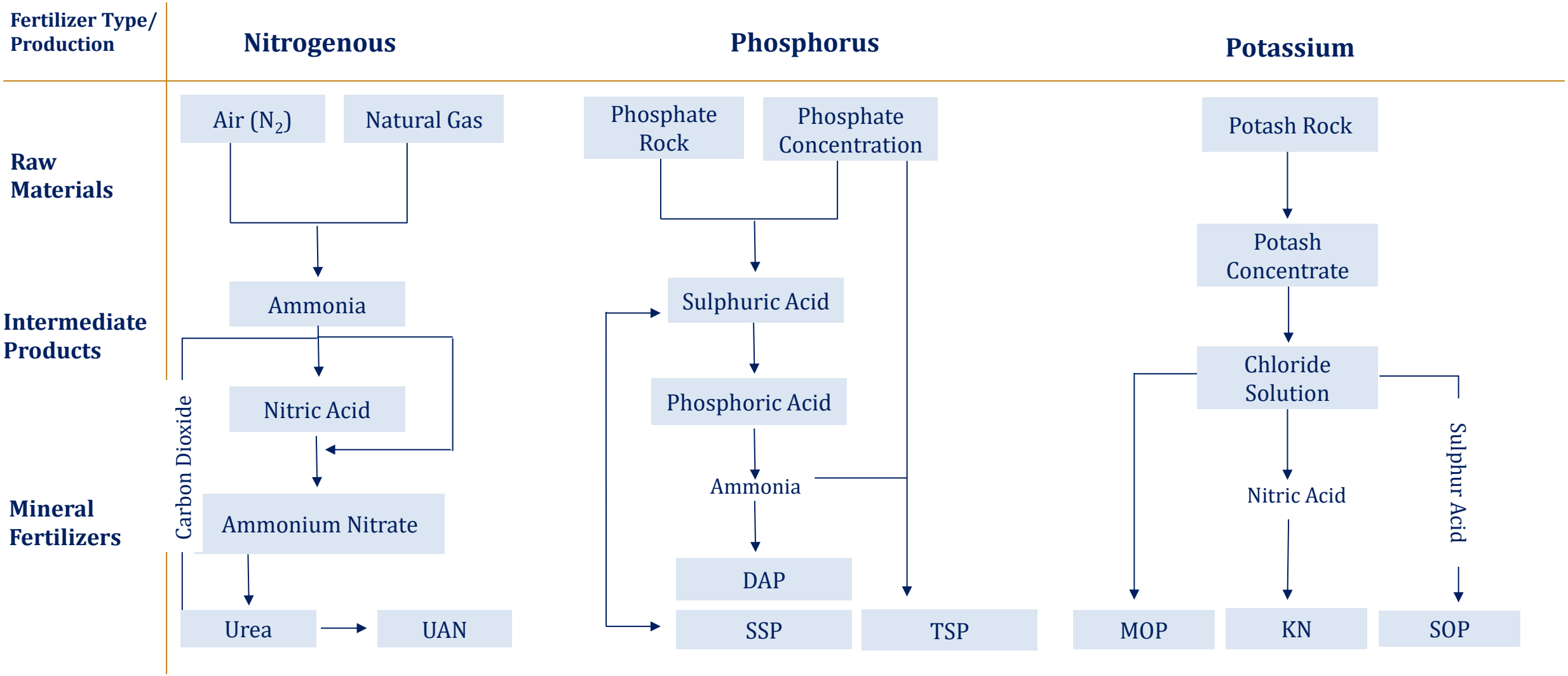


CAN: Calcium Ammonium Nitrate, DAP: Di-Ammonium Phosphate, NPK: Mixed Nitrogen, Phosphorus and Potassium, NP: Mixed Nitrogen and Phosphorous, SSP: Single Superphosphate

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 Zinc) 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 Phosphorus Pentoxide, Potassium Oxide and 1/3 of the Nitrogen (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

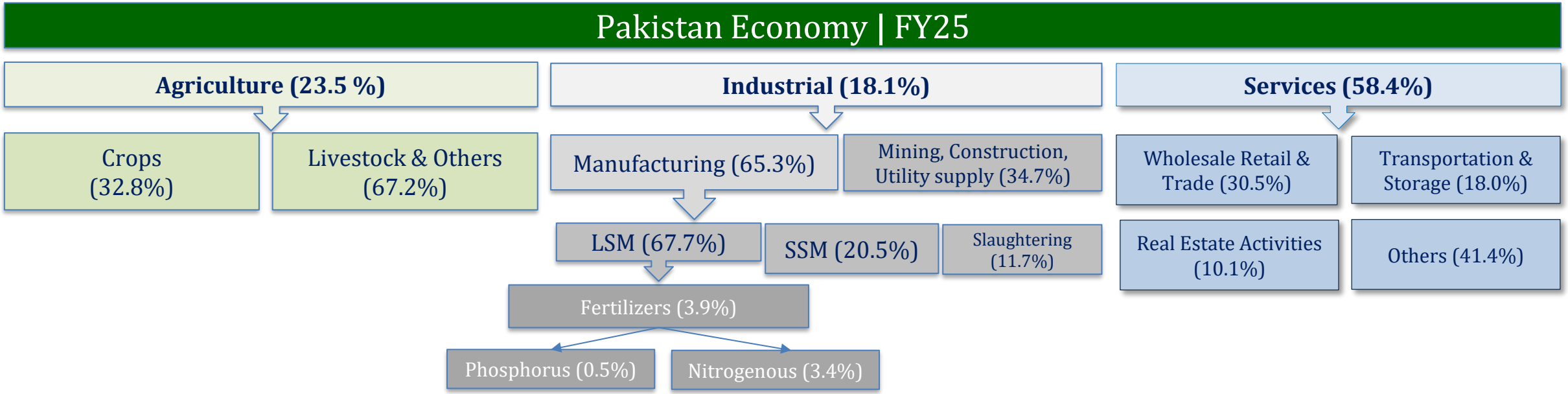
- In medium soils for Open Pollinated Variety's 87 Kg Nitrogen 46 Kg Phosphorus and 37 Kg Potash per acre.
- For hybrid soil 110 Kg Nitrogen, 58 Kg Phosphorus and 37 Kg Potash per acre is required for successful growing of maize crop.

Source: FOA

Fertilizers

Local | Introduction

- In FY25, Pakistan's GDP (nominal) increased to PKR~114.7trn (FY24: PKR~105.1trn). The GDP in real terms grew by ~2.7% YoY in (FY24:~2.5%) and ~3.7% in 1QFY26. The GDP growth target for FY26 is expected at ~3.25% according to the State Bank of Pakistan and ~4.2% according to the Government of Pakistan
- Industrial activities in FY25 contributed ~18.1% share to the GDP, while the manufacturing activities made up ~65.3% of the value addition in the Industrial activities. Large-scale manufacturing (LSM) in Pakistan is considered essential for economic growth, given its linkages with other sectors. LSM represented ~67.7% of the value of the manufacturing activities in FY25.
- The Fertilizers sector is classified as a Large-Scale Manufacturing (LSM) industrial component within the industrial sector. In FY25, the Fertilizers sector weight in the QIM was recorded at ~3.9%. Fertilizer output within LSM recorded a growth of ~1.7% in FY25, primarily driven by a ~1.0% increase in phosphate fertilizer production and a ~1.8% rise in nitrous fertilizer production.



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

Source: PBS, SBP

Fertilizers

Local | Overview

Production of Important Crops						
Crops	**Units**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**
Cotton	000' bales	7,064	8,329	4,910	10,223	7,084
Growth	***%***	***-23.00%***	***17.90%***	***-41.05%***	***108.20%***	***-30.71%***
Sugarcane	000' MT	81,009	88,651	91,111	87,638	84,235
Growth	***%***	***21.10%***	***9.40%***	***2.77%***	***-0.40%***	***-3.88%***
Rice	000' MT	8,420	9,323	7,322	9,869	9,723
Growth	***%***	***13.60%***	***10.70%***	***-21.46%***	***34.80%***	***-1.48%***
Maize	000' MT	8,465	10,635	10,183	9,847	8,239
Growth	***%***	***17.00%***	***25.60%***	***-4.25%***	***-10.40%***	***-16.33%***
Wheat	000' MT	27,293	26,394	27,634	31,438	28,980
Growth	***%***	***9.40%***	***-3.30%***	***4.70%***	***11.60%***	***-7.82%***

- The crop targets for FY26 offer a strategic outlook on the upcoming fertilizers' demand. For the forthcoming crop year of FY26, production targets stand at ~10.18mln bales for Cotton, ~76.7mln MT for Sugarcane, ~80.3mln MT for Rice, and ~26.68mln MT for Wheat.
- In FY25, cotton production stood at ~7.1mn bales, ~34% below the 10.8mn bale target, reflecting weak crop performance and lower acreage.

Source: PES, PCCC, FAO, USDA

Fertilizers

Local | Overview

- The fertilizer sector demonstrated steady growth during CY23–CY25, with sector revenue increasing from PKR ~720bln in CY23 to PKR ~846bln in CY25. The sector posted YoY growth rate of ~7% in CY24 followed by ~10.1% growth in CY25 . Despite revenue growth, the sector's contribution to GDP remained stable at ~0.8% during the period, indicating limited structural expansion in the overall industry size.

- Fertilizer production increased from ~8.8mln MT in CY23 to ~9.4mln MT in CY24 before moderating slightly to ~9.3mln MT in CY25, while offtake declined from ~10.1mln MT in CY23 to ~9.3mln MT in CY25. Imports rose significantly to ~1.2mln MT in CY24 before declining sharply to ~0.5mln MT in CY25, indicating overall lower offtake by the agriculture sector amidst high prices and lower production of certain key crops like Cotton. Meanwhile, closing stocks increased from ~0.5mln MT in CY23 to ~1.0mln MT in CY25, reflecting inventory accumulation across the sector.

- The sector remained highly concentrated, with the number of major players declining from five to four in CY25 subsequent to the merger of Fauji Fertilizer Company (FFC) and Fauji Fertilizer Bin Qasim (FFBL). The industry continues to exhibit oligopolistic characteristics, with a few large producers accounting for the majority of domestic production and fertilizer supply.

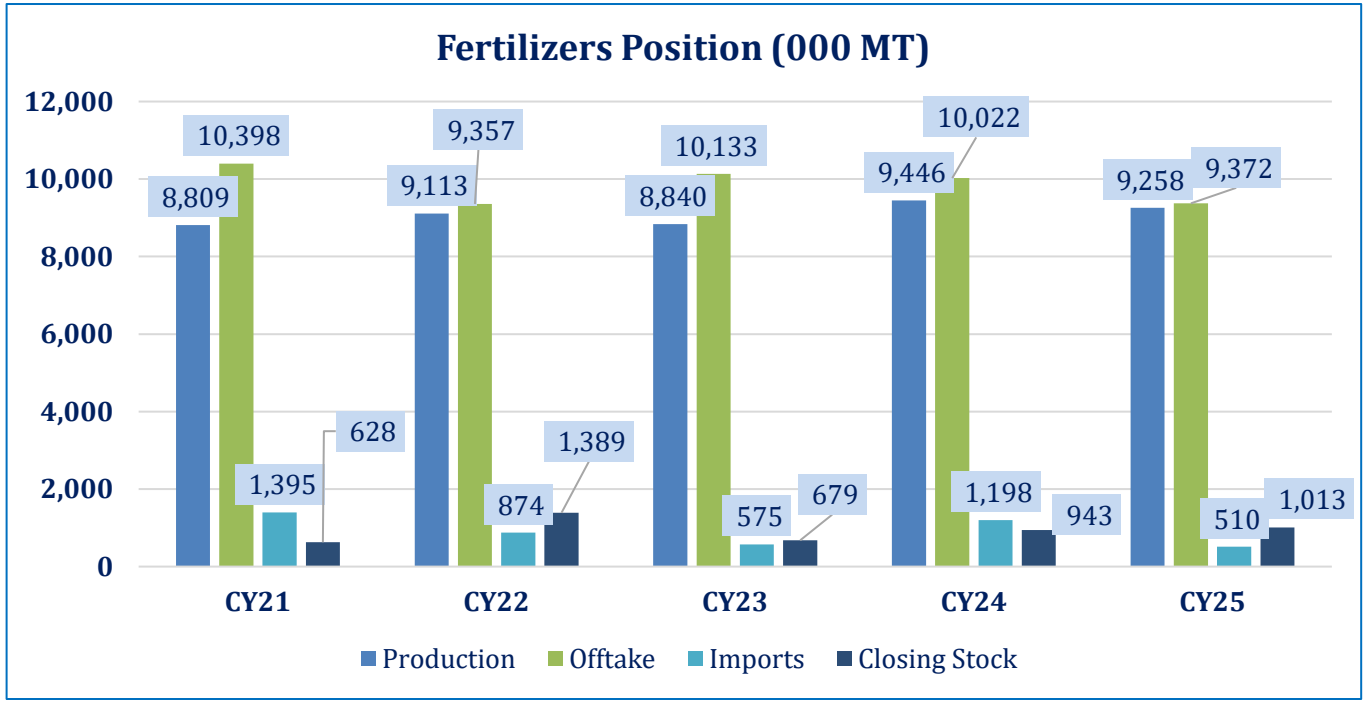
Snapshot	Unit	CY23	CY24	CY25
Revenue*	**PKR bln**	720	769	846
Growth in Revenue	**%**	43%	7%	10.1%
Contribution to GDP*	**%**	0.8%	0.8%	0.8%
Sector Players	**No.**	5	5	4
Production	**mln MT**	8.8	9.4	9.3
Offtake	**mln MT**	10.1	10.0	9.3
Closing Stock	**mln MT**	0.5	0.9	1.0
Imports	**mln MT**	0.6	1.2	0.5
Structure	Oligopoly			
Regulator	**MNFSR** (Ministry of National Food Security & Research)			
Associations	**FMPAC** (Fertilizer Manufacturers of Pakistan Advisory Council); **NFDC** (National Fertilizer Development Centre)			

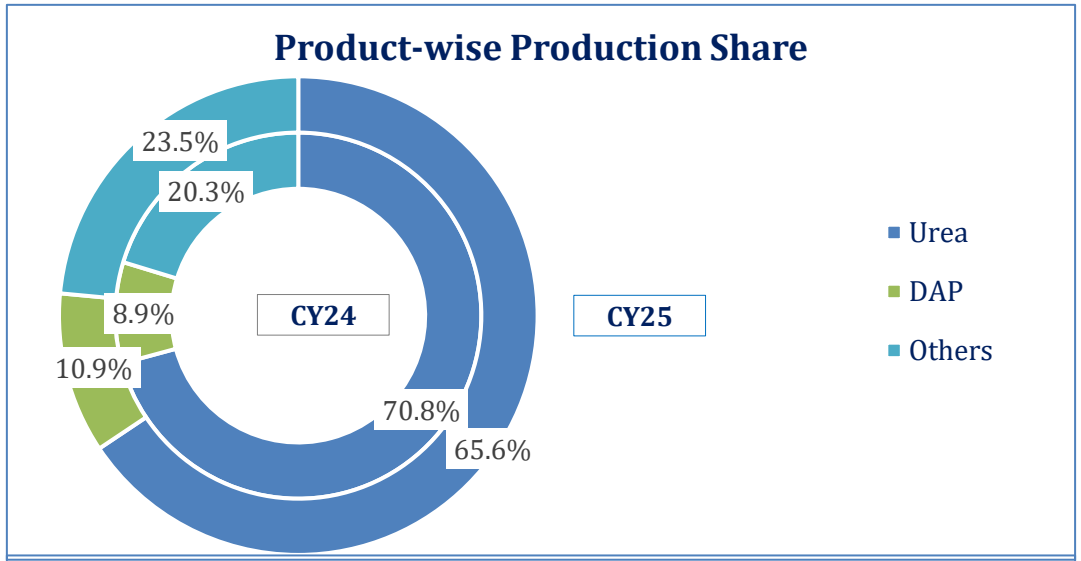
**CY24 Data is prorated or estimated on the basis of available data of 9MCY24. Moreover, FFBL merged into FFC in Dec'24 , bringing the sector players down to 4. CY24 GDP equivalent to FY24.*

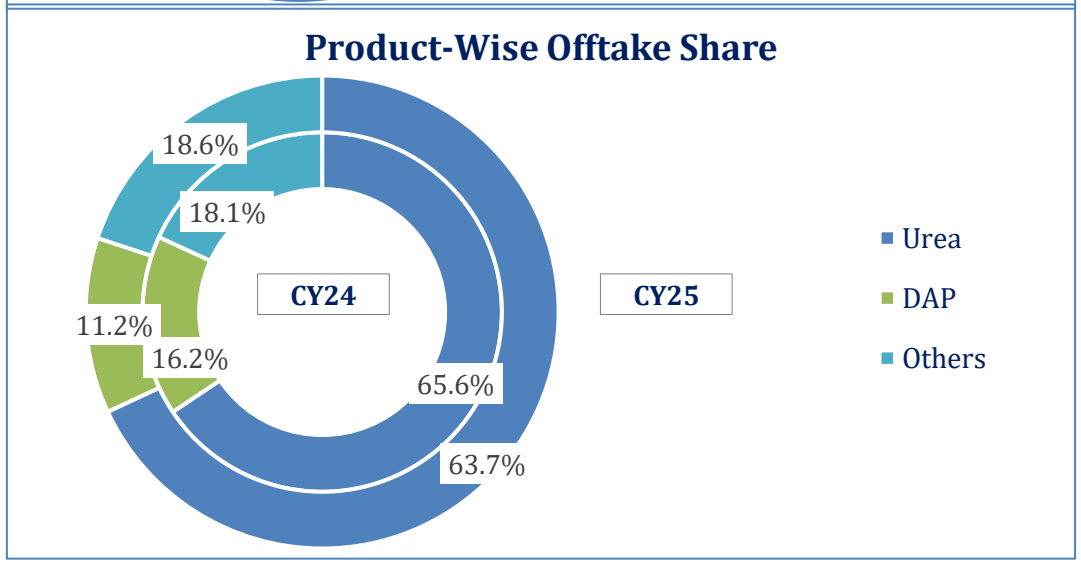
Source: NFDC, PACRA Database

Fertilizers

Local | Fertilizers Position





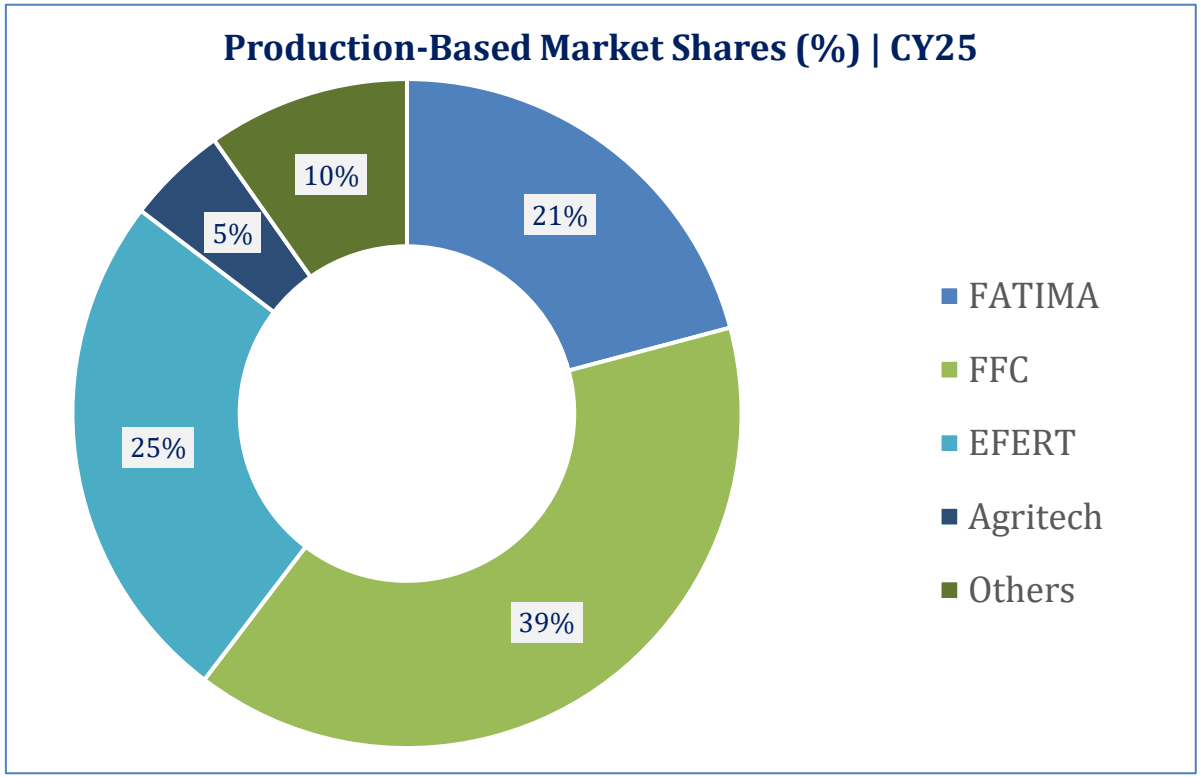


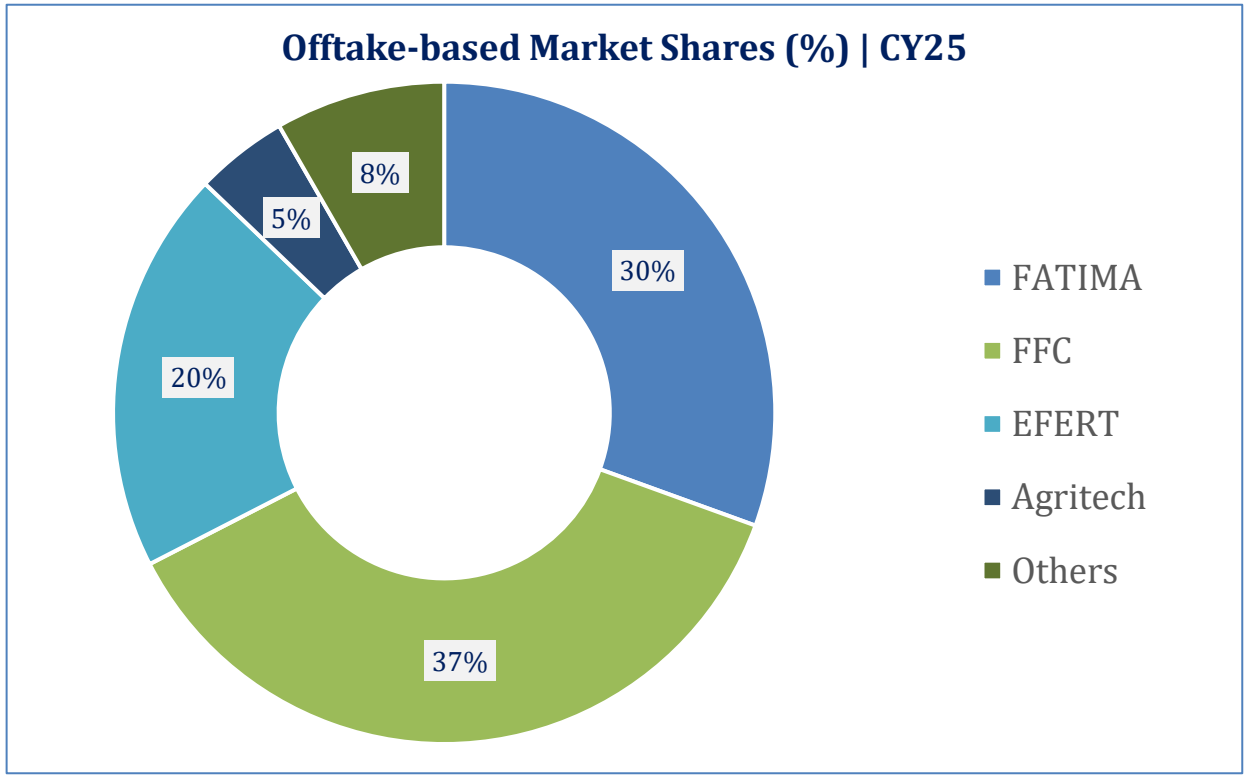
- Urea remained the dominant fertilizer product, though its production share declined from ~70.8% in CY24 to ~65.6% in CY25. Meanwhile, DAP's offtake decreased from ~16.2% to ~11.2%, reflecting a lower share of phosphatic fertilizer consumption. The decline in DAP usage mainly reflects lower relative consumption of phosphatic fertilizers compared to nitrogen-based fertilizers and higher prices.

Source: NFDC

Fertilizers

Local | Market Shares





- The fertilizer sector remained highly concentrated in CY25, with major players accounting for the bulk of domestic production and offtake. On a production basis, FFC held the largest share at ~39%, followed by EFERT (~25%) and Fatima (~21%), while Agritech and other producers accounted for relatively smaller shares.
- On offtake basis, Fatima and FFC remained the leading market participants with shares of ~30% and ~37%, respectively, followed by EFERT (~20%), while Agritech and other manufacturers collectively represented a smaller portion of total fertilizer sales. The difference between production and offtake primarily reflects variations in product mix and distribution reach across manufacturers.

Source: NFDC

Fertilizers

Local | Production Capacities (CY25)

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)**	2,599	112.00%					650	129%			3,249	3,740
ENGRO	Engro Fertilizers Limited **(EFERT)***	2,276	94.30%							100	105%	2,376	2,252
FATIMA	Fatima Fertilizer Company Ltd.*	815	99.63%	665	128%	870	98.16%					2,350	2,519
Agritech Limited		433.1	86.00%					81	106.00%			514.1	459.7
Total Capacity		**6,123**	**-**	**665**	**-**	**870**	**-**	**731**	**-**	**100**	**-**	**8,489**	**8,971**
Average Utilization		**-**	**97.98%**	**-**	**128.20%**	**-**	**98.16%**	**-**	**117.35%**	**-**	**105.00%**		

**Data for EFERT and FATIMA is for CY24*

Source: PSX

Fertilizers

Local | Urea Dynamics

- The annual domestic urea production declined moderately from ~6.7mln MT in CY24 to ~6.6mln MT in CY25, compared to a slight increase in the offtake from ~6.72mln MT in CY24 to ~6.73mln MT in CY25, indicating a structurally tight supply-demand balance. Urea demand remains broadly distributed across both Kharif (Apr–Sep) and Rabi (Oct–Mar) seasons, resulting in relatively stable consumption throughout the year.

- While domestic production remains the primary source of supply, periodic shortfalls have been met through limited imports (~0.06mln MT as of End-Dec'25) and inventory drawdowns. The temporary supply-demand gap generally reflects fluctuations in plant operating rates and feedstock gas availability, as natural gas remains the key input for urea production. As a result, imports have been used intermittently to stabilize market availability, though their contribution remains small relative to total supply, indicating continued reliance on domestic manufacturing capacity.

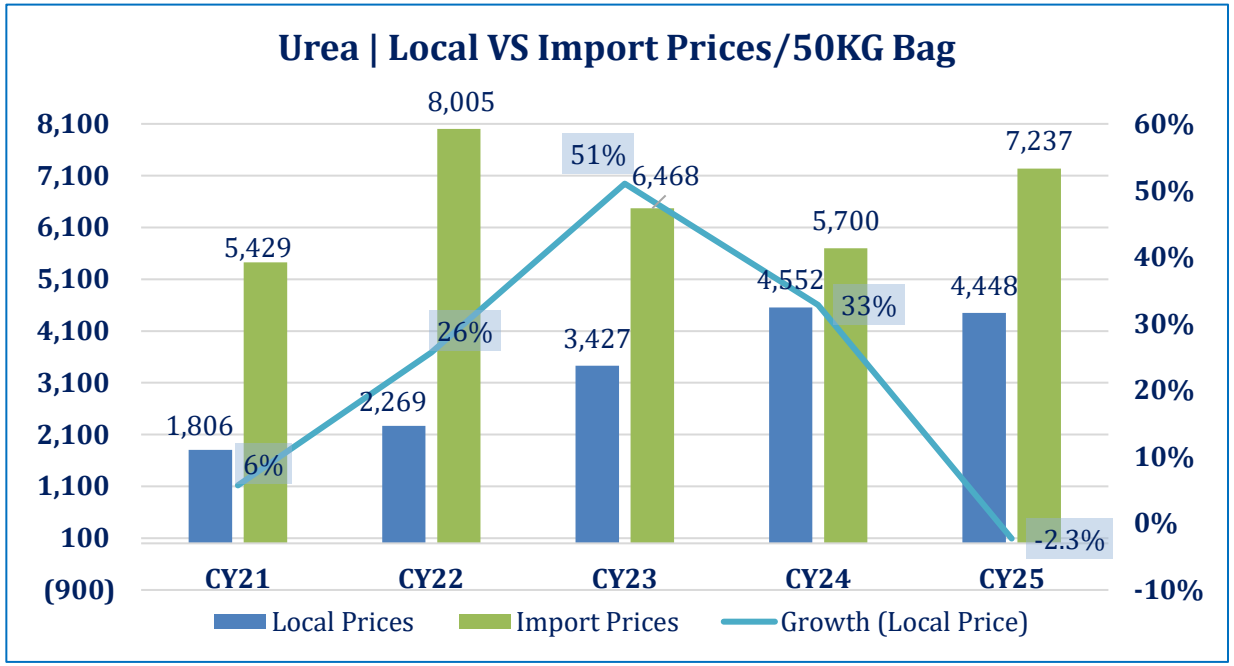
- Closing urea inventory stood at ~0.28mln MT as of End-Dec'25, almost above the historical average of ~0.27mln MT (CY21–CY24), indicating comfortable stock levels entering the Rabi season. Based on projected production and inventory levels, domestic availability is expected to meet seasonal demand requirements, with imports expected to remain minimal during the period.

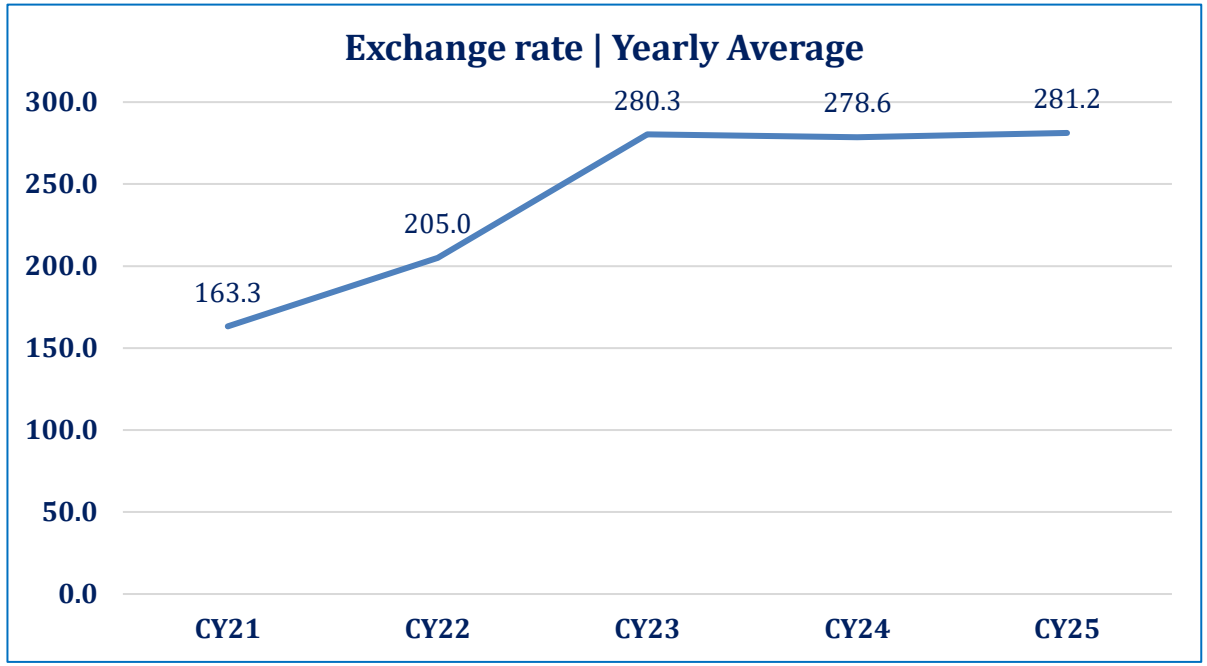
Urea | Annual Position ('000' MT)					
Particulars	**CY21**	**CY22**	**CY23**	**CY24**	**CY25**
Opening Inventory	**389**	**188**	**319**	**224**	**326**
Production	6,141	6,331	6,433	6,687	6,625
Imports	0	306	48	173	63
Total Availability	**6,530**	**6,825**	**6,800**	**7,084**	**7,014**
Less:					
Offtake (Local)	6,343	6,505	6,576	6,724	6,730
Exports	0	0	0	0	0
Closing Inventory	**188**	**319**	**224**	**360**	**284**

Source: NFDC

Fertilizers

Urea | Local & Import Prices



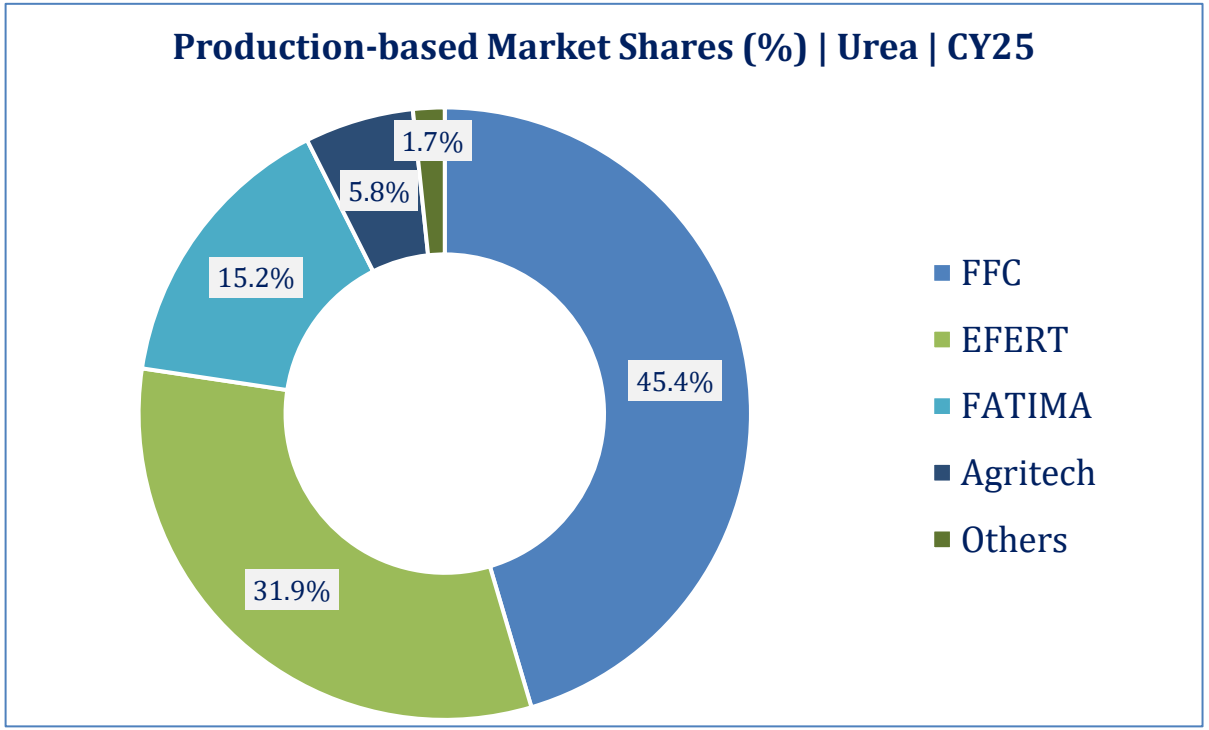


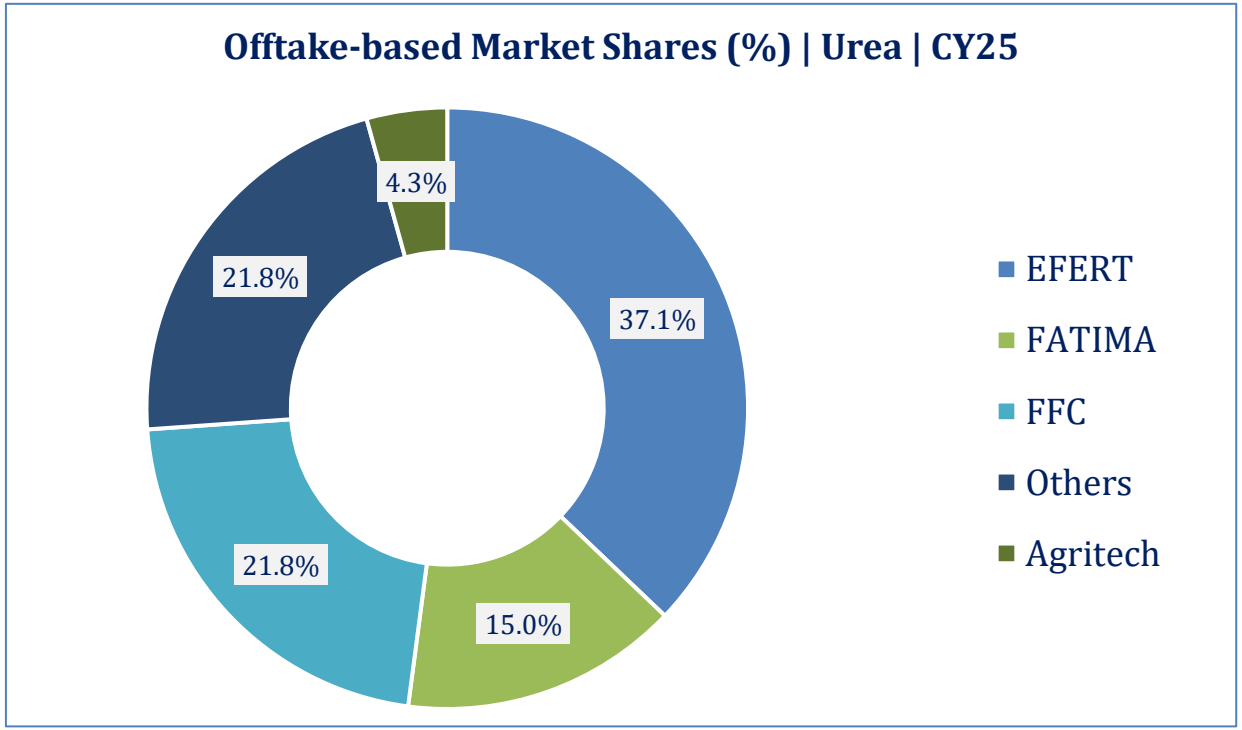
- Local urea prices increased significantly between CY21–CY24, rising from PKR ~1,806/bag to PKR ~4,552/bag, before stabilizing in CY25 to PKR ~4,448/bag. The upward trend in domestic prices coincided with higher international urea prices and depreciation of the PKR, with the average exchange rate weakening from PKR ~163.3/USD in CY21 to PKR ~281.2/USD in CY25, increasing the landed cost of imported fertilizer.
- Imported urea prices remained consistently higher than local prices, peaking around PKR ~8,000/bag in CY22 and remained elevated at PKR ~7,237/bag in CY25, maintaining a significant premium over domestic product. This persistent price differential highlights the cost advantage of domestic production and reinforces the importance of local manufacturing in maintaining fertilizer affordability.
- The gap between local and imported urea prices remained substantial throughout the period, with local prices typically ranging 30–60% below imported levels, limiting reliance on imports except during supply shortages.

Source: NFDC

Fertilizers

Urea | Market Players





- The domestic urea market is highly concentrated, with FFC (~45.4%) and EFERT (~31.9%) holding the largest production-based shares, followed by Fatima (~15.2%) and Agritech (~5.8%), while other producers account for a marginal portion of total output, reflecting the dominance of large integrated manufacturers.
- Offtake-based shares in CY25 show a similar structure, with EFERT (~37.1%) maintaining market leadership, followed by FFC (~21.8%) and FATIMA (~15.0%). Meanwhile smaller players, including Agritech and others, collectively represent a ~26.1% share of total offtake, indicating a stable landscape despite fluctuations in overall fertilizer offtake.

Source: NFDC

Fertilizers

Urea | Outlook

- During Oct–Dec'25, urea availability stood at ~2.8mln MT against offtake of ~2.5mln MT, resulting in closing inventories of ~0.3mln MT. The relatively elevated offtake during the period reflects seasonal fertilizer application requirements during the Rabi planting season, supported by ongoing agricultural activity and availability of farmer financing programs such as the Kissan Card scheme.
- During the ongoing Rabi season (Oct'25–Mar'26), total availability is projected at ~4.4mln MT, supported by production of ~3.3mln MT and opening inventories of ~1.1mln MT. Availability is expected to remain adequate to meet the estimated offtake of ~3.7mln MT, with closing inventories projected at ~0.7mln MT. The comfortable supply position reflects steady domestic production together with elevated opening stocks, while fertilizer usage continues to be supported by crop price realizations and farm income conditions.

Urea Position (000 MT)	Actual	Estimated*			Rabi Season
	Oct-Dec'25	Jan'26	Feb'26	Mar'26	Oct-Mar'26*
Opening Stock	1,148	284	602	581	1,148
Imports	0	0	0	0	0
Production	1,674	541	493	566	3,273
Total Availability	**2,822**	**825**	**1,095**	**1,147**	**4,421**
Offtake	2,525	218	514	428	3,686
Closing Inventory	297	607	581	719	735

**NFDC estimates.*

Source: NFDC, MoF

Fertilizers

Local | DAP Dynamics

- DAP fertilizer availability declined significantly from ~1.9mln MT in CY24 to ~1.3mln MT in CY25, while offtake also reduced from ~1.8mln MT in CY24 to ~1.0mln MT in CY25, reflecting variability in supply and demand conditions over the period. Total availability declined by ~27% YoY in CY25, mainly due to lower imports and reduced domestic production amid weaker phosphatic fertilizer demand.

- DAP production remained broadly stable, averaging ~0.8mln MT during CY21–CY25, while imports averaged around ~0.7mln MT, underscoring Pakistan's structural reliance on imported phosphatic fertilizers. Despite overall fertilizer sales remaining stable, on the back of sustained urea demand, DAP demand declined due to higher DAP prices and a higher price differential with urea.

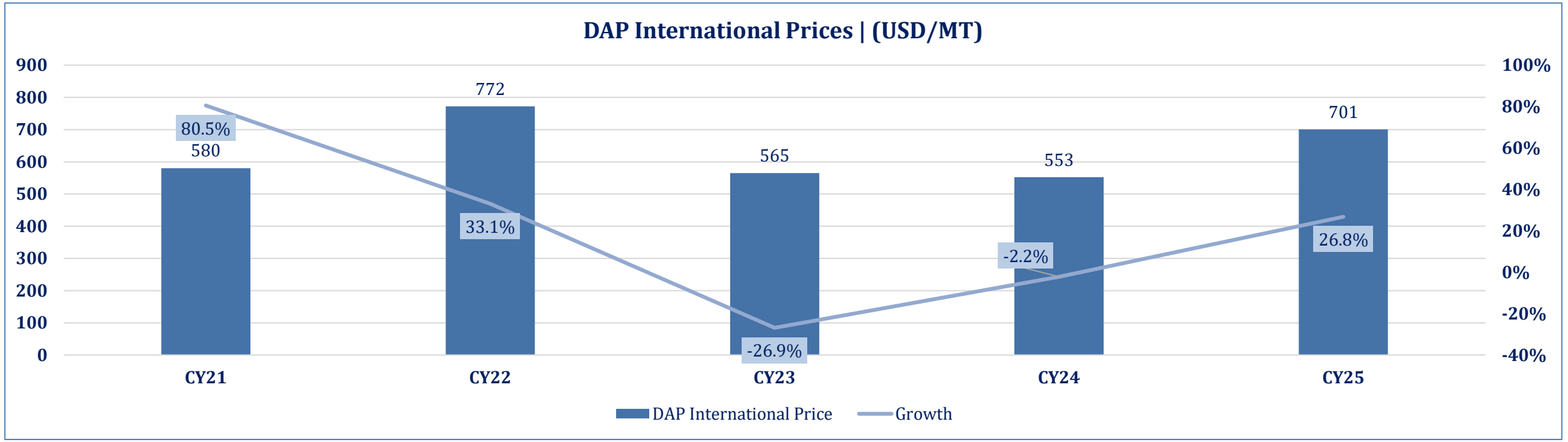
- DAP imports declined to ~0.5mln MT in CY25 from ~0.9mln MT in CY24, while domestic production reduced to ~0.76mln MT from ~0.85mln MT, significantly impacting offtake from ~1.8mln MT to ~1.0mln MT. The lower consumption led to higher closing inventories of ~0.3mln MT in CY25 compared to ~0.1mln MT in CY24, indicating inventory accumulation amid subdued phosphatic fertilizer demand.

DAP | Annual Position ('000' MT)					
Particulars	**CY21**	**CY22**	**CY23**	**CY24**	**CY25**
Opening Inventory	135	192	494	149	96
Production	790	850	683	843	761
Imports	1,174	665	480	866	489
Total Availability	**2,099**	**1,707**	**1,656**	**1,858**	**1,346**
Less:					
Offtake	1,907	1,213	1,508	1,756	1,024
Closing Inventory	**192**	**494**	**149**	**102**	**322**

Source: NFDC, Agri Punjab

Fertilizers

DAP | Global Price Dynamics

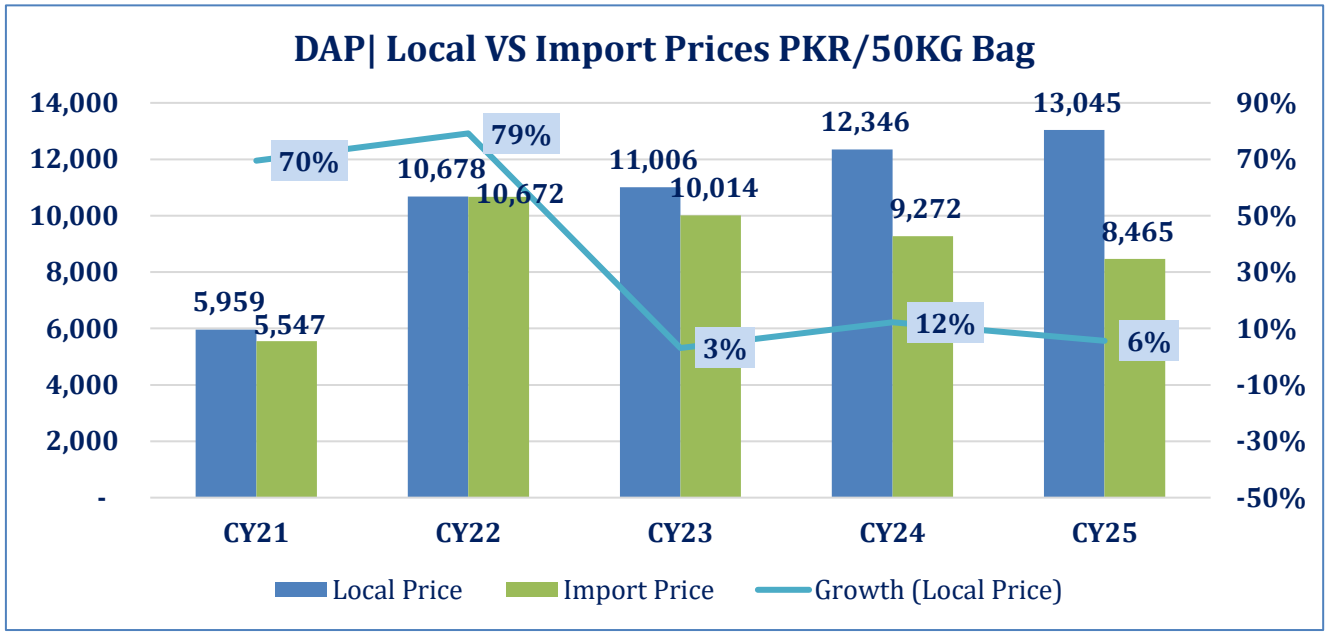


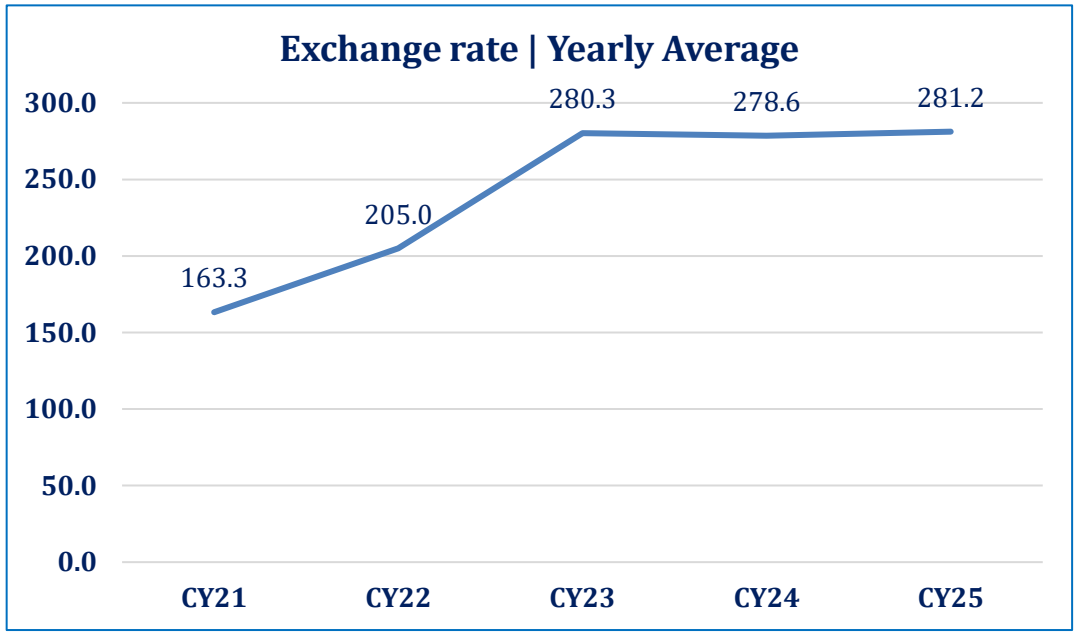
- International DAP prices remained relatively firm in recent periods, stabilising around USD ~553/MT in CY24 before increasing to USD ~701/MT in CY25 (~26.8% YoY growth), reflecting renewed upward pressure in global phosphatic fertilizer markets.
- The recent increase in international DAP prices follows the correction observed in CY23, with prices recovering steadily during CY24–CY25, indicating continued volatility in global fertilizer markets.
- Elevated international DAP prices continue to influence domestic pricing, as Pakistan remains dependent on imported phosphatic fertilizers, making local DAP prices sensitive to global price

Source: NFDC

Fertilizers

DAP | Local Price Dynamics





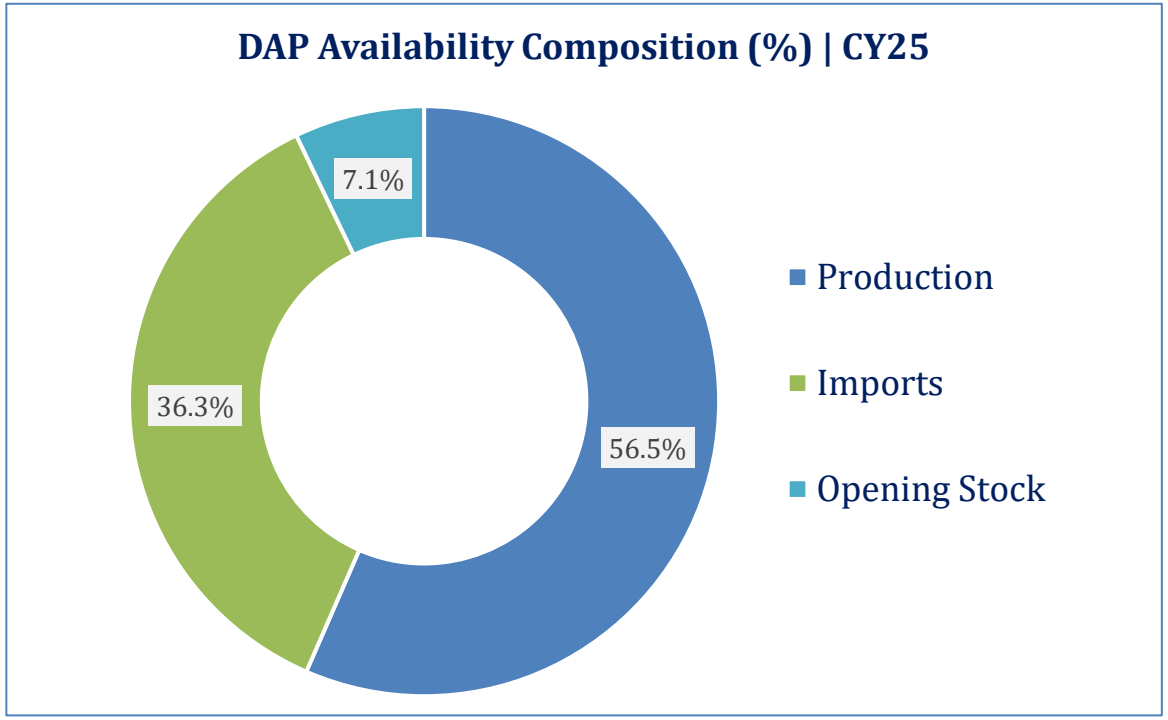
- Local DAP prices showed a sustained upward trend during CY21–CY25, increasing from PKR ~5,959/bag in CY21 to PKR ~13,045/bag in CY25, reflecting higher global phosphate prices and the impact of PKR depreciation, with the exchange rate weakening from PKR ~163.3/USD in CY21 to PKR ~281.2/USD in CY25, increasing the landed cost of imported fertilizer.
- Imported DAP prices remained broadly aligned with local prices, peaking around PKR ~10,672/bag in CY22 before moderating to PKR ~8,465/bag in CY25, indicating the strong linkage between domestic prices and international market trends given Pakistan's reliance on imported phosphatic fertilizers.
- Unlike urea, the gap between local and imported DAP prices remained relatively narrow, with domestic prices closely tracking import parity levels, reflecting the import-dependent nature of the DAP market and the influence of international pricing dynamics on local fertilizer prices.

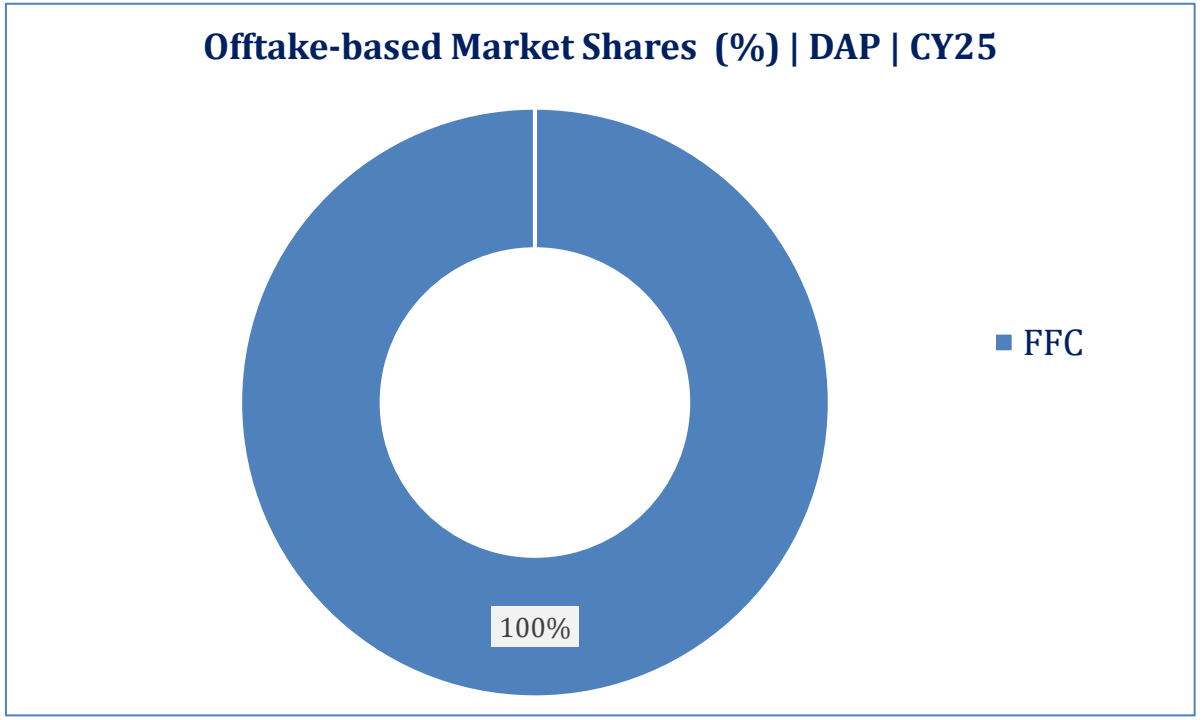
***Note**: HS code for Phosphoric Acid 2809.2010; for DAP 3105.3000.*

Source: NFDC, WB, WITS, SBP, PBS

Fertilizers

DAP | Market Players





- In terms of total DAP offtake, ~100% was accounted for by FFC in CY25 since it is the only major local manufacturer of DAP.
- In terms of availability in CY25, ~56.5% of DAP was produced locally, ~36.3% was imported and ~7.1% constituted opening stock.

Source: NFDC

Fertilizers

DAP | Outlook

- For the ongoing Rabi season (Oct'25-Mar'26), DAP availability (inclusive of imports) stands at ~1.0mln MT. Based on current demand trends and historical seasonal patterns, expected offtake is projected at ~0.75mn MT, indicating that overall supply remains comfortably above anticipated consumption levels.
- Total DAP imports during the upcoming Rabi season are estimated to be ~0.22mln MT. Given the supply-demand balance, closing inventory is expected to stand at ~0.25mn MT by the end of Mar'26, providing a healthy carry-forward stock cushion ahead of the next Kharif cycle.

DAP Position ('000' MT)	Actual	Estimated*			Rabi Season
	Oct-Dec'25	Jan'26	Feb'26	Mar'26	Oct'25-Mar'26*
Opening Stock	945	219	279	265	392
Imports	150	71	0	0	221
Production	215	29	67	75	387
Total Availability	**1,310**	**319**	**346**	**340**	**1,000**
Offtake	544	39	81	86	750
Closing Inventory	766	280	265	426	250

**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

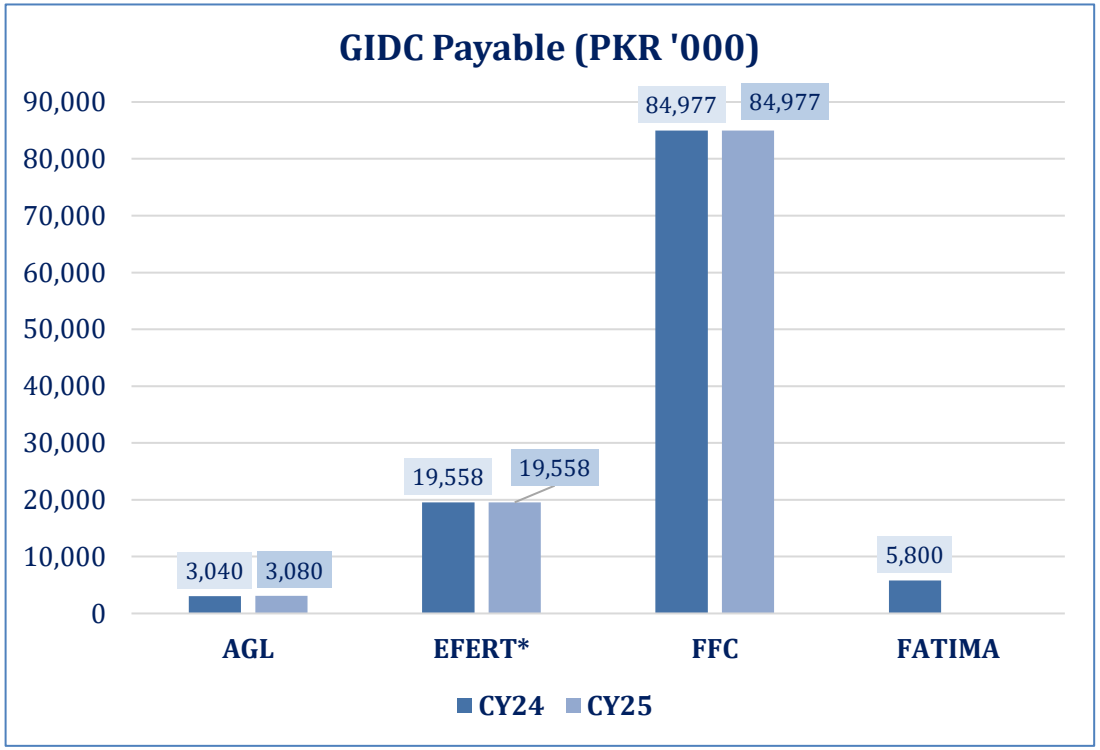
Through the Finance Act 2023, Super Tax was increased to 10% (retrospectively applicable from FY22) and a 5% sales tax was imposed on DAP with no input tax adjustment allowed, a taxation structure that has continued in the FY26 Budget as well.

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 CY24 and CY25 reveals that these remained stable in general except AGL's (increased slightly from PKR ~3.0mln in CY24 to PKR ~3.1mln in CY25).



Supply Network	Company Name	FY24	FY25	FY24	FY25
		Feed Stock Prices (per MMBTU)		Fuel Stock Prices (per MMBTU)	
MARI	Engro Fertilizers**	580	580	1,580	1,580
SNGPL		USD~0.7	1,597	1,580	1,597
Mari	Fatima Fertilizers Company Limited	580	580	1,580	1,580
Mari	Fauji Fertilizer Company Limited	580	580	1,580	1,580
SNGPL	Pak Arab Fertilizer	510	510	1,500	1,500

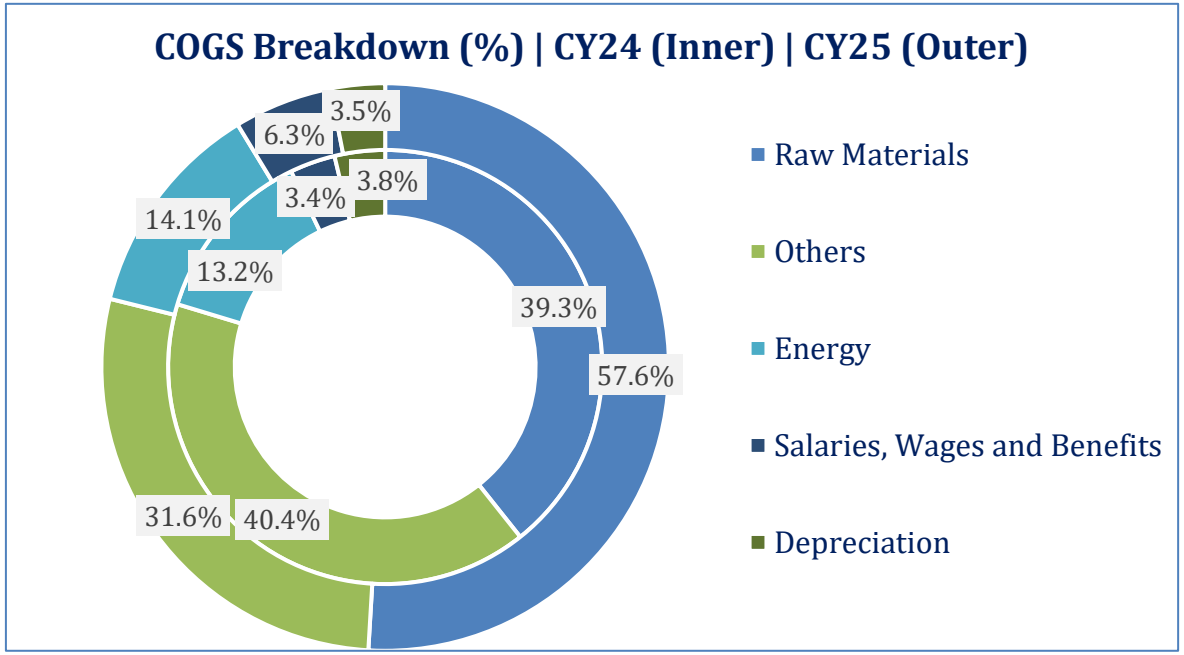
**Analysis excludes FATIMA for a like-to-like comparison. **Engro Fertilizer receives gas from SNGPL at a rate of USD ~0.7/MMBTU for feedstock in FY24.*

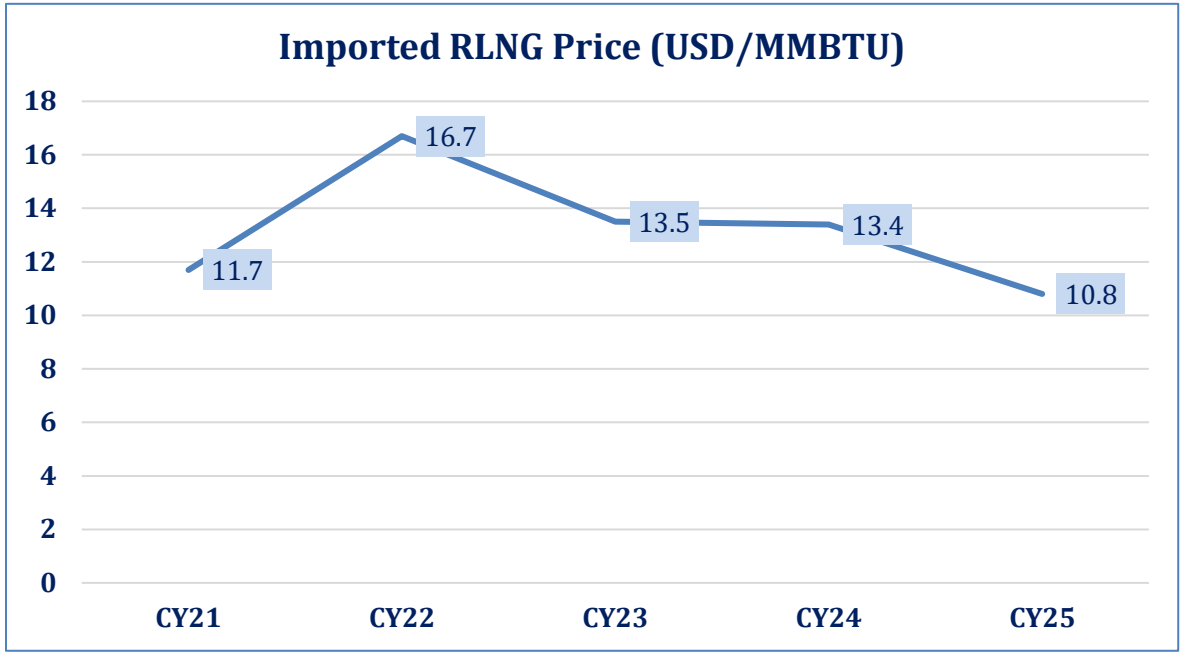
Note: *Prices for gas supply are notified on respective dates: Pak-Arab (15 Feb, 2023), Engro Fertilizers (SNGPL) (29 June,2025), Engro (Mari), Fatima and FFC (27 Oct, 2024).*

Source: PSX, OGRA

Fertilizers

Business Risk | Cost Structure





- The sector's cost structure remained largely driven by raw material expenses (mainly natural gas for urea), whose share increased from ~39.3% in CY24 to ~57.6% in CY25, reflecting greater reliance on production inputs across major sector participants. Raw materials primarily include feedstock natural gas used in urea manufacturing, along with chemical inputs such as ammonia, phosphoric acid, and rock phosphate used in phosphatic fertilizers. Meanwhile, the share of salaries, wages, and benefits increased from ~3.4% in CY24 to ~6.3% in CY25, reflecting higher employee-related costs, while the relative contribution of other cost components declined.
- During CY25, average global RLNG prices fell to USD ~10.8/MMBTU, with a YoY downtick of ~19.4%; however, the energy share in total cost increased, primarily reflecting higher energy consumption despite lower RLNG prices. The decline in RLNG prices during CY25 was primarily driven by lower international LNG prices and reduced Delivered-Ex-Ship (DES) import costs, which directly determine RLNG pricing in Pakistan.

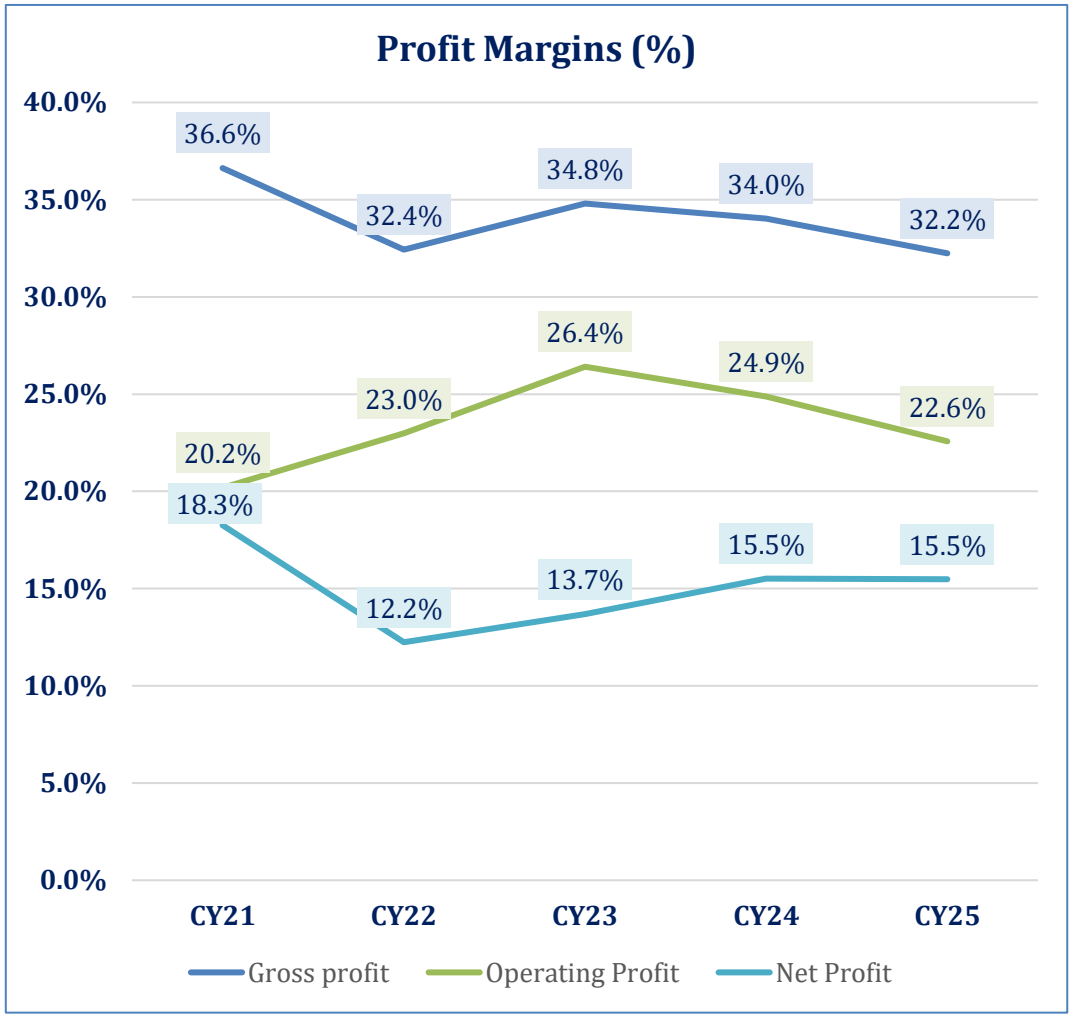
***Note**: Global natural gas price is determined by averaging out the prices of natural gas in the US, EU, JPN. Imported RLNG prices have been sourced from OGRA.*
** Latest Available*

Source: WB, PSX, OGRA, PACRA Database

Fertilizers

Business Risk | Margins

- The fertilizer sector has historically maintained strong profitability, supported by cost advantages in domestic urea production arising from subsidized indigenous gas supply, relatively inelastic demand due to its essential role in agricultural productivity, and continued government support measures..
- During CY21–CY25, the sector's average gross profit margin remained strong at ~34.0%. Gross margins stood at ~34.0% in CY24 before moderating to ~32.2% in CY25, primarily due to relatively higher raw material costs along with increases in salaries, wages and other manufacturing expenses.
- The sector's average operating margins during CY21–CY25 remained healthy at ~23.4%. Operating margins declined to ~24.9% in CY24 and further to ~22.6% in CY25, reflecting contraction in gross profitability coupled with higher operating expenses.
- The sector's average net profit margins stood at ~15.0% over CY21–CY25. Net margins remained stable at ~15.5% in CY24 and CY25, following an improvement from ~13.7% in CY23. The relatively higher net profitability was primarily supported by higher non-operating income, relatively lower effective tax rate and lower finance cost. The increase in other income was largely driven by dividend income from subsidiaries, associates and joint ventures, along with gains on non-financial assets including Agritech's conversion of preference shares into ordinary shares

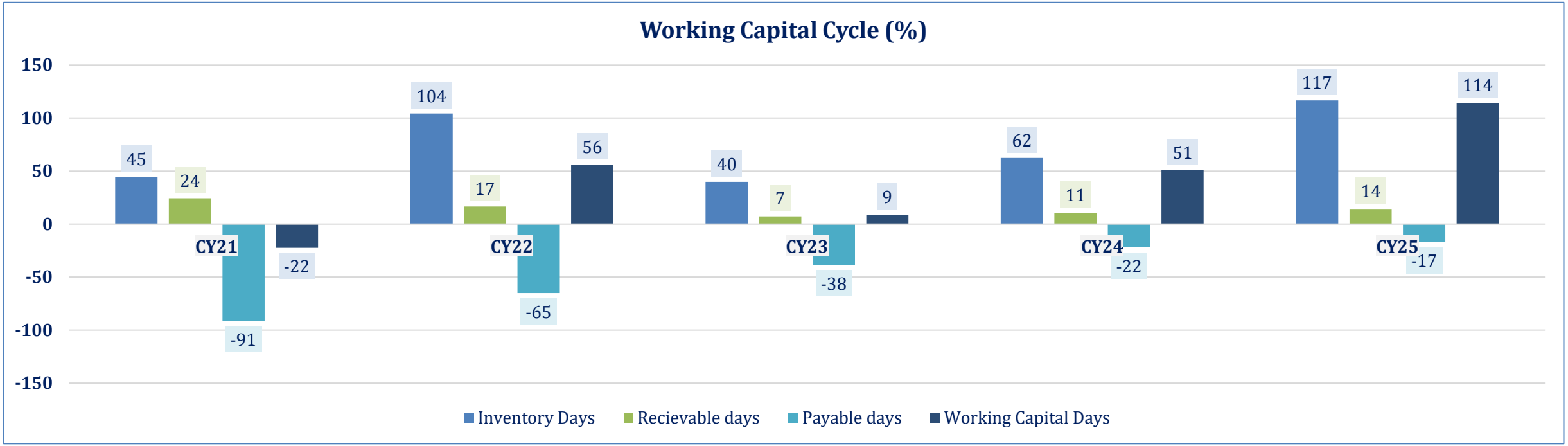


Source: PACRA Database, PSX

Fertilizers

Financial Risk | Working Capital Management

- The sector's inventory days increased significantly from ~62 days in CY24 to ~117 days in CY25, reflecting substantially higher inventory holdings across major sector participants. Receivable days also increased moderately from ~11 days in CY24 to ~14 days in CY25, indicating relatively slower recoveries and higher outstanding balances during the period.
- Payable days declined from ~22 days in CY24 to ~17 days in CY25, primarily reflecting lower trade payables across major sector participants, particularly Fauji Fertilizer, resulting in reduced supplier financing.
- Resultantly, the sector's working capital cycle increased significantly from ~51 days in CY24 to ~114 days in CY25, primarily driven by higher inventory holdings. The increase in inventory days is consistent with higher fertilizer inventories, particularly phosphatic fertilizers, amid lower DAP offtake during CY25, as reflected in the sector supply position.



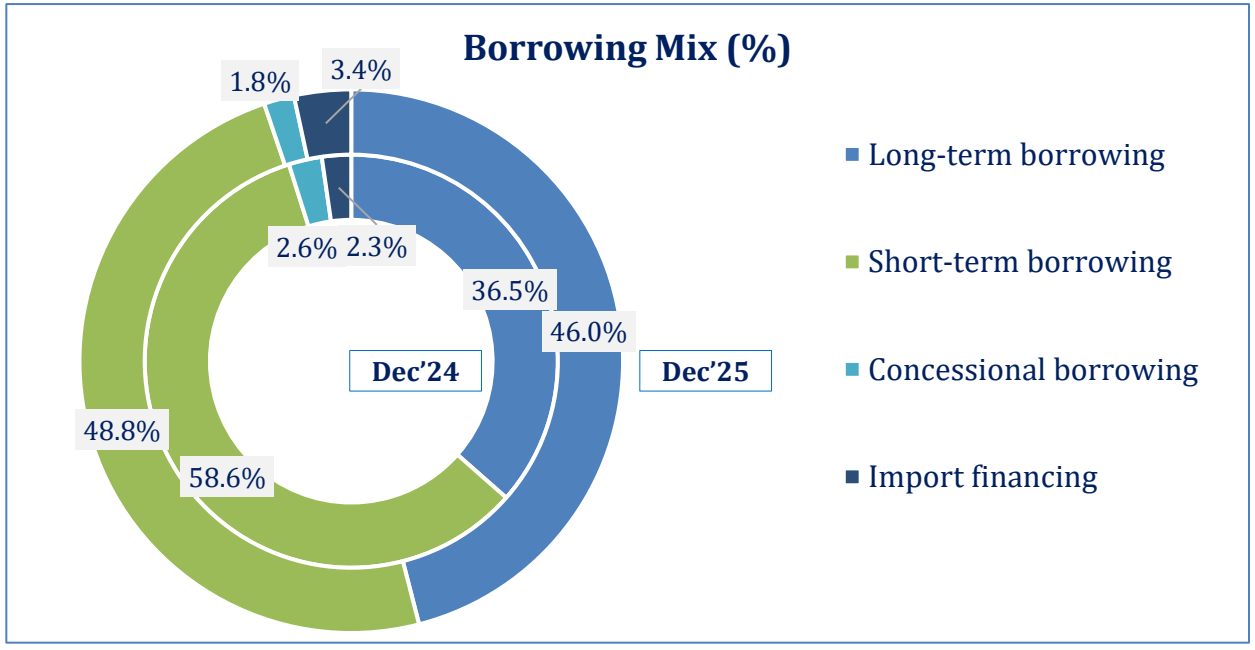
Note: *Financials of four major players (EFERT, FFC, AGL & FATIMA) have been used. .*

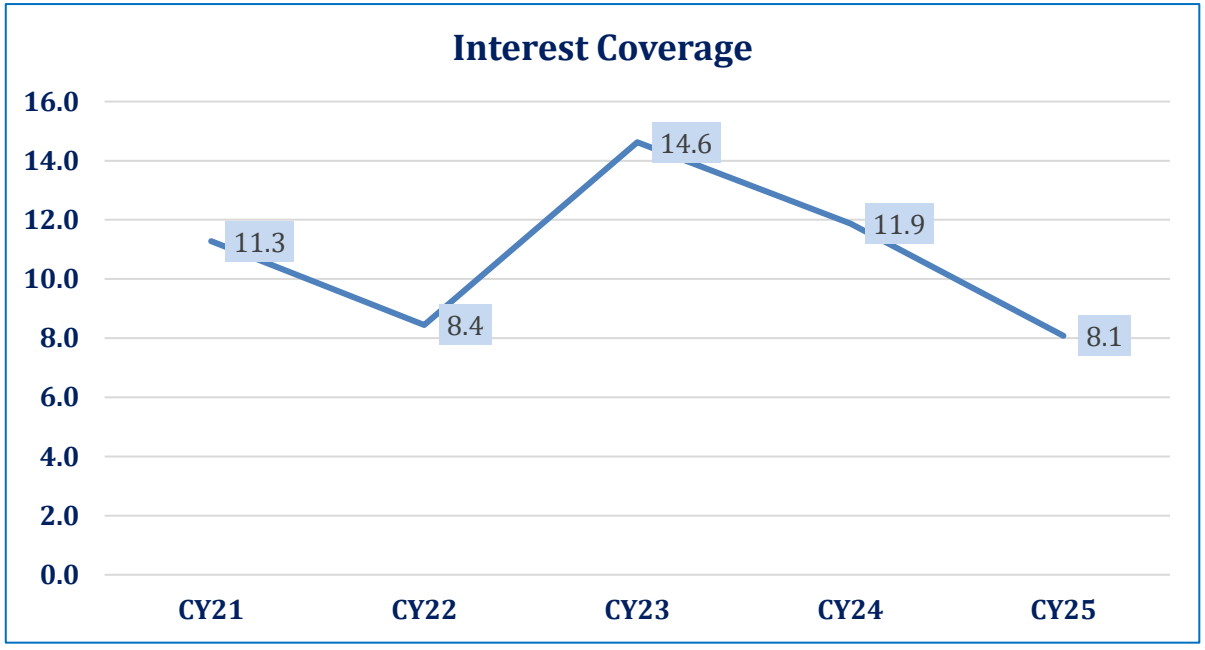
Source: PACRA Database

Fertilizers

Financial Risk | Borrowings

- The sector's borrowings increased by ~28.1% YoY to PKR ~246.7bln, with the borrowing mix shifting towards long-term financing (LTBs ~46.0% in CY25 vs ~36.5% SPLY), reflecting higher financing requirements across major sector participants. The increase in borrowings also reflects higher capital allocation and investment activities undertaken by major sector players.
- The fertilizer sector remains moderately leveraged, with leverage increasing in recent periods mainly due to higher short-term borrowings undertaken to finance working capital needs and significant cash outflows in the form of dividend distributions across major sector participants, particularly large players such as Fauji Fertilizer.
- The sector's interest coverage ratio remained strong but declined to ~8.1x in CY25 from ~11.9x in CY24, primarily because of higher quantum of borrowings and lower EBIT. This occurred despite relatively lower interest rates, indicating that the increase in finance costs was mainly volume-driven, reflecting higher borrowings across the sector.





Note: *Financials of four major players (EFERT, FFC, AGL & FATIMA) have been used for interest coverage. 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%, ~0.0%, ~18.0% and ~12.0%, respectively, as of FY25.

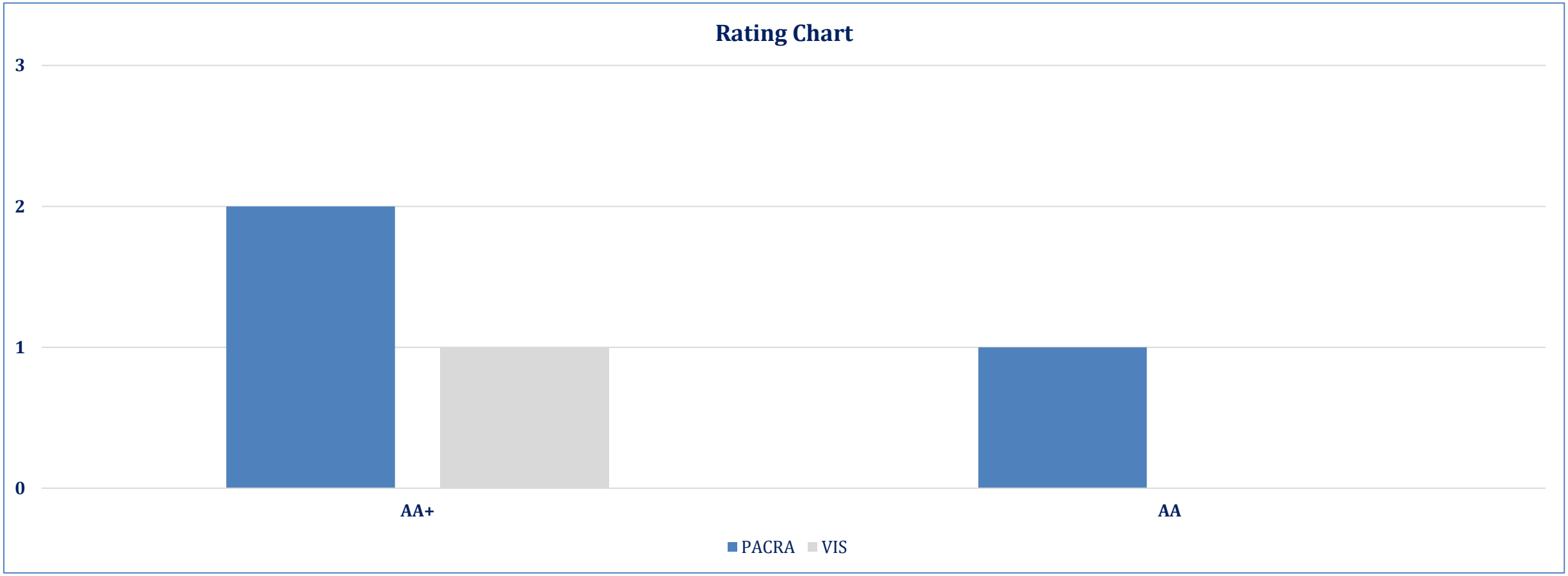
HS Code	Description	Custom Duty (CD)		Additional Custom Duty (ACD)		Sales Tax (ST)		Income Tax (IT)	
		FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26
3102.1000	Urea	0%	0%	2%	0%	18%	18%	12%	12%
3105.3000	Diammonium Phosphate (DAP)	0%	0%	2%	0%	18%	18%	12%	12%
3104.3000	Potassic Fertilizers	0%	0%	2%	0%	18%	18%	12%	12%

Source: FBR, NFDC

Fertilizers

Rating Curve

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

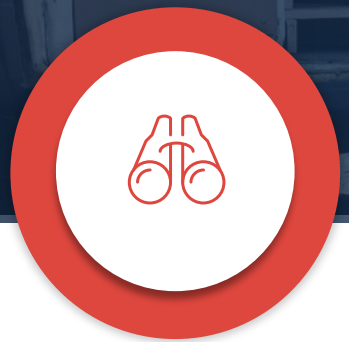


Source: PACRA Database

Fertilizers

Porters 5 Forces Model

POTENTIAL NEW ENTRY



- Low threat to Entry
- High Capital cost of plant development
- Limited supply of major raw material (Natural Gas) domestically
- 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
- Strong partnership with local suppliers
- No control over gas supply

COMPETITIVE RIVALRY

- Low
- Few big players enjoying economies of scale

Fertilizers

SWOT Analysis

Strengths

- Availability of indigenous gas feedstock for urea production
- Low-cost skilled and unskilled labor
- Capital-intensive sector
- Strong demand fundamentals
- Strong dealership and distribution network
- Diversified product portfolio (Urea, DAP, CAN)
- High-capacity utilization in urea segment

Weaknesses

- Reliance on depleting natural gas resources
- High dependence on imported phosphatic fertilizers
- Gas supply and international price dependency
- GIDC-related uncertainties
- Dependence on irrigation and rainfall
- Exposure to regulated pricing environment

Threats

- Regulatory and policy risks
- PKR depreciation leading to higher input costs
- Imports of urea and other fertilizers
- Gas shortages, especially in winters
- Fuel price increases
- Weak farm economics

Opportunities

- Growing population and food consumption
- Government support programs for farmers
- Alignment of gas pricing with fertilizer policy
- Development of fertilizer value chains
- Capacity for horizontal and vertical integration
- Improvement in farm economics

Fertilizers

Outlook: Stable

- Pakistan's economic growth showed modest improvement, with real GDP growth increasing from ~2.5% in FY24 to ~2.7% in FY25, reflecting gradual macroeconomic stabilization. However, fertilizer demand remains sensitive to farm economics, price movements, and input affordability.
- Urea is expected to remain the primary driver of fertilizer sector stability, supported by domestic production of ~6.6mln MT in CY25, stable offtake of ~6.7mln MT, and closing inventories of around ~0.3mln MT in CY25, which are likely to limit reliance on imports. Local urea prices remained broadly stable in the recent period, marginally declining from PKR ~4,552/bag in CY24 to PKR ~4,448/bag in CY25 (~2% YoY decrease) despite imported prices remaining elevated.
- Recent policy developments indicate that selected fertilizer plants may receive indigenous gas allocations instead of imported RLNG, which could improve production stability and reduce feedstock costs going forward.
- The outlook for DAP remains comparatively volatile due to Pakistan's structural reliance on imports, with domestic production of around ~0.8mln MT supplemented by imports of approximately ~0.5mln MT in CY25. Local DAP prices continued to increase in the recent period, rising from PKR ~12,346/bag in CY24 to PKR ~13,045/bag in CY25 (~6% YoY growth), reflecting sustained pressure from import-linked pricing.
- Sector margins are expected to remain broadly stable, supported by relatively low-cost domestic urea production and a concentrated market structure dominated by a few large players. Improved gas availability at lower cost may support margins, although profitability remains sensitive to feedstock pricing and exchange rate movements.
- Regulatory developments remain a key risk for the sector, as the government is reportedly considering the imposition of a cess on fertilizer companies, which may affect sector profitability depending on its final structure and implementation.
- Pakistan is advancing a ~USD 1.1bn coal-to-urea project in Thar with planned capacity of ~0.7mln MT annually, which could strengthen long-term domestic supply and reduce dependence on imported fertilizer and energy sources.
- Recent policy developments are supportive of domestic fertilizer production, with the government approving indigenous gas allocation to three fertilizer plants (FFC, Fatima, and Agritech) to ensure uninterrupted urea production and reduce reliance on expensive imported fuel.

Fertilizers

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