



FERTILIZER INDUSTRY

Sector Update - April 2011

The fertilizer products are variations of three primary soil nutrients, namely nitrogen (N), phosphorous (P) and potassium (K). It is the suitability of a nutrient for crop that determines the usage of a particular fertilizer product. Pakistan's soil is deficient in nitrogen and phosphate; thereby an optimal combination of these nutrients is necessary to achieve higher yield levels. However, the availability and price of a product at a given point in time impacts the demand pattern. For instance, lower prices of Urea and DAP on nutrient basis, being partial substitutes of CAN and NP respectively, are likely to affect the demand of these products. Moreover, lack of awareness among farmers also plays a role in determining the use of fertilizers. Not realizing the benefits of an optimal NP ratio, farmers tend to favour products available in the market at cheaper rates. On the other hand, considerable growth potential remains for the product which could be tapped by continuous education of the farmer community.

Considering the importance of agriculture in Pakistan, government support to the fertilizer sector remains critical in ensuring smooth availability of products at affordable prices. In this regard, import of duty free rock phosphate and subsidy on natural gas are major support measures on the part of the government. Natural gas is an essential input in fertilizer contributing around 80% to the total production cost as fuel and feedstock. As the energy crisis deepened in early 2010 it posed some business risk to the fertilizer sector in the shape of curtailment in feedstock gas supply. However, companies kept their margins intact by passing on the impact to consumers through increasing the per bag price of fertilizer products.

The prevailing economic conditions along with mounting budget deficits have put pressure on the government to reduce/discontinue subsidy to different sectors. Likewise, readjustments in the fertilizer sector are also on the anvil. On account of relatively inelastic demand of fertilizers, producers have pricing power through which they pass on the rising cost of input to the consumers. Recently, the Competition Commission of Pakistan (CCP) has directed the industry to give explanation before any further increase in fertilizer prices. There are also proposals to provide direct subsidy to the farmer as a relief measure rather than routing it through fertiliz-

er companies but in view of operational difficulties any material progress in this regard seems to be remote. While the subsidy scheme on phosphatic and potassic fertilizers was waived off from January 2009 onwards, a new scheme on potassic fertilizer at the rate of Rs. 500/bag has been initiated since January 2010.

The prevalent demand and supply gap in the market has triggered setting up of new plants in the country. Notable additions in recent times include FATIMA with a total capacity of producing CAN, NP, NPK and Urea at 1580 thousand tonnes, Suraj Fertilizer Industries having a capacity of producing SSP 18 percent at 150 thousand tonnes and Agritech Limited (formerly Pak American Fertilizer) adding 137 thousand tonnes of Urea. Moreover, Engro has installed a new urea plant with a significant annual capacity of 1.3 million tonnes. While the installed capacities have reduced the import requirements of fertilizer products, the additional capacity of Engro is likely to create a surplus situation in local market of urea for some time, if the gas curtailment is taken care of.

The future prospects of the fertilizer industry are directly aligned with growth in the agriculture sector. Availability of water & gas and favourable government policies will play a pivotal role in determining the viability of the industry. With the resumption of fertilizer exports from China after relaxation in export tax, international price trend in fertilizer products is likely to keep a steady profile amid reduction in the demand and supply gap. However, the local urea prices are still at a considerable discount to the international prices.

Production Update

There was a decline in urea production largely on account of periodical maintenance and gas shortage while NP was produced above the rated capacity mainly owing to production efficiencies. Going forward, any significant increase in production levels would require capacity enhancement. The company plans to expand its production capacity with expected capital expenditure of Rs. 22b. In the initial phase, PFL intends to increase its ammonia plant production capacity by 138,600 metric tons per year from current level of 316,800 metric tons per year. The company has signed an agreement with the SNGPL for an uninterrupted supply of additional 16

MMCFD gas from FY12 onwards. The management expects commencement of the enhanced capacity of ammonia production by FY12. Product-wise installed production capacity and its utilization is tabulated in the table below:

M.Tons	FY10	FY09
Urea		
Rated Production Capacity	92,400	92,400
Actual Urea Produced	73,933	105,674
Capacity utilization	80%	114%
Nitro Phosphate (NP)		
Rated Production Capacity	304,500	304,500
Actual NP Produced	316,699	292,102
Capacity utilization	104%	96%
Calcium Ammonium Nitrate (CAN)		
Rated Production Capacity	450,000	450,000
Actual CAN Produced	350,062	341,928
Capacity utilization	78%	76%

Moreover, PFL has developed a Co-Generation Plant (CGP) that enabled it to switch from older power generation system to energy efficient cogeneration system. The industry-wide gas curtailment forced the fertilizer companies to cut down production levels. However, the adverse impact of curtailment on PFL was somewhat mitigated on account of fuel gas saving through the CGP. The CGP project will not only save energy but would also generate Certified Emissions Reductions (CERs). Expected revenues from additional CERs are around Rs. 188m per year. These CERs will contribute towards the revenue already being generated from CERs by the CDM plant.

Jahangir Kothari Parade (Lady Lloyd Pier)

Inspired by Her Excellency, The Honorable Lady Lloyd, this promenade pier and pavillion was constructed at a cost of 3 Lakhs and donated to the public of Karachi by Jahangir Kothari to whose genrosity and public spirit the gift is due. Foundation stone laid on January 5, 1920. Opened by Her Excellency, The Honorable Lady Lloyd on March 21, 1921.

Dome: A roof or vault, usually hemispherical in form. Until the 19th century, domes were constructed of masonry, of wood, or of combinations of the two, frequently reinforced with iron chains around the base to counteract the outward thrust of the structure.

Origins: The dome seems to have developed as roofing for circular mud-brick huts in ancient Mesopotamia about 6000 years ago. In the 14th century B.C. the Mycenaean Greeks built tombs roofed with steep corbeled domes in the shape of pointed beehives (tholos tombs).

Otherwise, the dome was not important in ancient Greek architecture. The Romans developed the masonry dome in its purest form, culminating in a temple built by the emperor Hadrian. Set on a massive circular drum the coffered dome forms a perfect hemisphere on the interior, with a large oculus (eye) in its center to admit light.



Jahangir Kothari
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