

ENGRO FERTILIZER LIMITED

Analysts:

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RATING DETAILS

Ratings Category	Preliminary Sukuk Rating
Preliminary Sukuk Rating - 3	A1+ (Plim)
Rating Action	Preliminary
Rating Date	May 13, 2026

Shareholding (5% or More)

Engro Corporation Limited - 56.3%

General public - 20.6%

Insurance companies - 10.39%

Other Information

Incorporated in 2009

Public Limited Company (Listed)

Chief Executive: Mr. Imran Ahmed

External Auditor: A.F. Ferguson & Co Chartered Accountants

Applicable Rating Methodology

VIS Entity Rating Criteria Methodology - Instrument Rating

<https://docs.vis.com.pk/Methodologies-2025/IRM-Apr-25.pdf>

Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Rating Rationale

The assigned rating of the proposed Short-Term Sukuk reflects Engro Fertilizers Limited strong business fundamentals, sponsorship support from the broader Engro Corporation, and the Company's demonstrated track record of healthy cash flow generation. The fertilizer sector continues to hold strategic importance due to its critical role in supporting agricultural productivity and food security in Pakistan.

The rating further draws comfort from EFert's healthy liquidity profile, established market position, and strong banking relationships, which collectively support refinancing flexibility and contain short-term liquidity risk. The Company's consistent cash flow generation provides adequate support for timely servicing of short-term obligations. Going forward, sustained product offtakes, efficient inventory management, and disciplined working capital management will remain important to maintaining the Company's short-term credit profile.

Company Profile

Engro Fertilizers Limited, a key subsidiary of Engro Corporation, is one of Pakistan's leading fertilizer producers. Incorporated in 2009 and listed on the Pakistan Stock Exchange, the Company operates with a broad commercial and logistics network across the country. The Company maintains a strong position in the domestic market, engaged in the manufacturing and sale of urea, NPK complex fertilizers (Zarkhez), phosphate-based products including DAP and MAP (marketed as Engro DAP and Zorawar), and zinc-based fertilizers (Zingro). The Company operates two urea plants at Daharki Base and EnVen, with a combined designed capacity of 2.25 million metric tons per annum, along with an NPK plant at Port Qasim having a capacity of 100,000 metric tons per annum. DAP requirements are met through imports.

Short-Term Sukuk (STS)-3

Engro Fertilizers Limited plans to issue a rated, unsecured, privately placed Short-Term Sukuk (STS)-3 of up to PKR 25 billion, including a green-shoe option of PKR 10 billion, with a tenor of six months from the issue date. Proceeds of the STS are to be directed towards meeting the Company's working capital requirements, particularly to support inventory. The proposed profit rate is 1M - KIBOR minus 0.20%. Both profit and principal are payable in a single bullet payment at maturity.

The Company issued Sukuk-2 amounting to PKR 20 billion in November 2025, which is scheduled to mature on May 18, 2026, and will subsequently be replaced by Sukuk-3.

Management and Governance

OWNERSHIP/SPONSOR

Engro Corporation remains the majority shareholder of EFert, holding approximately 56.3% of the Company's issued share capital. The remaining 45% constitutes the free float and is owned by a diverse base of public shareholders, including institutional investors and individual investors.

Engro Fertilizers follows a governance framework anchored in a diverse and actively engaged Board, supported by specialized committees that ensure effective oversight of strategy, controls, and human capital. The Board People Committee strengthens governance execution by rigorously reviewing senior management remuneration, organizational policies, and leadership succession while maintaining high attendance and compliance standards. Despite Board and CEO changes during the year, the Company demonstrated strong institutional stability through transparent disclosures and timely appointments. The appointment of Imran Ahmed as Chief Executive Officer further reflects continuity in leadership and reinforces the Company's mature and resilient governance culture.

Business Risk

Pakistan's fertilizer industry remains a key pillar of the agriculture sector, with urea accounting for the bulk of consumption, followed by DAP, NP, CAN, and other blended products. The market is dominated by Fauji Fertilizer Company Limited (FFC), Engro Fertilizers Limited (EFert), and Fatima Fertilizer Company Limited (Fatima), which together represent 87% of domestic offtake. According to National Fertilizer Development Centre (NFDC) data, CY25 production-based market shares place Fauji Fertilizer Company Limited (FFC), as the largest producer at ~39%, followed by EFert at ~25% and Fatima Fertilizer at ~21%.

Local urea production continues to broadly meet domestic demand, with only limited imports (~0.06mn MT as of end-Dec'25) supplemented by inventory drawdowns to bridge short-term gaps. However, Pakistan remains structurally reliant on imports of DAP and other phosphatic fertilizers, keeping the sector exposed to international price and currency fluctuations. Overall, business risk for the fertilizer sector remains assessed as medium to low, supported by stable demand fundamentals and strong domestic production capacity, albeit with sensitivity to global input cost cycles.

During CY25, Pakistan's urea industry offtake stood at ~6.7mn tons, reflecting an increase of approximately ~15% YoY compared to CY24 (~5.8mn tons). DAP offtake was recorded at ~1.3mn tons, showing a decline of around ~18% YoY versus CY24 (~1.6mn tons). Urea industry market shares stood at EFERT (31.9%), FFC (45.4%), FATIMA (15.2%) and AGL (5.8%) in CY25. Whereas DAP supply remains dominated by FFC as the only domestic producer, with the market largely supplemented through imports.

According to NFDC, offtake projected for the Rabi 2025-26 season (October-March) is around 3,686 kt for urea, whereas for Oct-Dec 2025 the offtake stood at 2,525 kt with annual production of Urea standing at 6,730 kt for CY25. DAP offtake for Rabi 2025-26 is around 750 kt, whereas for Oct-Dec 2025 the offtake stood at 544 kt with annual production of DAP standing at 1,024 kt for CY25.

Operational Update

During CY25, urea sales exhibited a strong upward trajectory, with industry offtake increasing from 1,100 Kt in 1QCY25 to 2,525 Kt in 4QCY25. The Company's urea sales rose from 260 Kt to 1,034 Kt over the same period, while market share improved from 24% to 41%, supported by better product availability, stronger kharif and rabi season demand, and an extensive distribution network that enhanced sales momentum during the latter half of the year.

DAP sales, however, remained volatile, with industry volumes increasing from 148 Kt in 1QCY25 to 567 Kt in 4QCY25. The Company's DAP sales increased from 24 Kt to 70 Kt, although market share fluctuated between 5% and 19% due to import timing mismatches, supply constraints, and uneven farmer demand amid fluctuations in phosphate prices.

Quarterly Sales Performance	(000 tonnes)			
	1QCY25	2QCY25	3QCY25	4QCY25
Urea				
Engro	260	431	589	1,034
Industry	1,100	1,251	1,854	2,525
Market Share (%)	24%	34%	32%	41%
DAP				
Engro	24	56	16	70
Industry	148	291	333	567
Market Share (%)	16%	19%	5%	12%

PROFITABILITY

EFert's profitability moderated in CY25 compared to the previous year, primarily due to subdued urea and DAP offtake and higher discounting undertaken to manage elevated inventory levels during the year. Demand remained under pressure amid rising farmer input costs, withdrawal of support prices, climate-related challenges affecting agricultural output, and elevated international phosphatic fertilizer prices. Consequently, inventory accumulation and pricing incentives weighed on the Company's earnings during the year.

Despite pressure on volumes and topline growth, gross margins improved in the corresponding period, reflecting normalization in profitability following CY24, when mandated sales of GoP-imported urea at below-cost rates had materially compressed margins. The Company's underlying manufacturing margins remained supported by its efficient cost structure and scale advantages together with gas availability for Base plant on a permanent basis.

In 1QCY26, profitability remained supported by improved urea offtake and stronger retention prices, although overall demand dynamics continued to remain sensitive to farmer affordability and crop economics. Going forward, the Company's earnings outlook will depend on sustained recovery in fertilizer demand, normalization of inventory levels, and stability in international

fertilizer prices. EFer t's strong market position, diversified product portfolio, and cost competitiveness continue to support its medium-term profitability profile.

Financial Risk

CAPITAL STRUCTURE

Engro Fertilizers Limited maintains a balanced capital structure, supported by strong profitability and consistent operating cash generation. During CY25, the Company distributed dividends totaling Rs. 25.3 billion to shareholders. Gearing and leverage increased during the year, primarily due to higher working capital requirements amid softer market demand, as well as additional borrowings to finance ongoing capital expenditures. The funding profile shifted toward both long-term and short-term debt, reflecting balance sheet reprofiling associated with short-term investments and intercompany working capital loans extended to its subsidiary.

In 1QCY26, leverage metrics remained elevated as the Company continued to fund strategic capital expenditures and carry higher working capital balances amid subdued offtake. Going forward, capital structure indicators will continue to be influenced by the ongoing Gas Pressure Enhancement Facility (PEF) project and working capital needs. The Pressure Enhancement Facility (PEF) is a multi-phase initiative aimed at stabilizing and enhancing gas pressure from the Mari Gas Field to the Company's urea plants in Daharki. Phase 1 is progressing as planned, with one key scope already completed and the remaining scope expected to be finalized by end of CY26. Phase 2, which forms part of the broader USD 300 million industry-wide investment program, is also advancing steadily and involves the installation of compression facilities and related infrastructure. The leverage and gearing are expected to gradually improve over the coming quarters, supported by stronger fertilizer demand, normalization of inventory levels, and improved cash collections. Any excess liquidity generated is expected to be utilized toward early repayment of long-term borrowings, which should further strengthen the Company's capital structure.

DEBT COVERAGE & LIQUIDITY

Despite an increase in leverage during CY25, the Company maintained adequate profitability and consistent operating cash generation, supporting comfortable coverage of interest and principal obligations. Coverage indicators improved significantly compared to CY24, underpinned by healthy margins, operational efficiencies, and stable demand dynamics in the sector. Liquidity remains sound, supported by adequate cash balances, strong banking relationships, and sufficient unutilized credit lines, which provide flexibility during periods of elevated working capital requirements. While profitability and cash flow coverages softened on an unconsolidated basis in Q1'26, the Company, together with its wholly owned subsidiary EFERT Agritrade (Private) Limited, recorded a notable improvement in profitability during the period, while coverage indicators also remained comfortable.

ENGRO FERTILIZER LIMITED (Consolidated)				
FINANCIAL SUMMARY				(Rs. in millions)
<u>BALANCE SHEET</u>	CY23	CY24	CY25	1QCY26
Property, plant and equipment	78,440	83,137	92,391	102,833
Long Term Investments	202	4,268	4,349	4,349
Stock-in-Trade	15,356	26,729	25,692	34,189
Trade Debts	2,912	8,253	16,846	2,943
Short Term Investments	24,063	3,691	16,013	14,751
Cash & Bank Balances	4,054	4,308	8,043	2,425
Total Assets	160,843	170,602	199,166	204,789
Trade Payables	2,272	1,002	1,944	3,599
Long Term Debt	5,982	21,536	43,908	52,342
Short Term Debt	530	12,452	23,023	24,511
Total Debt	6,513	33,988	66,930	76,853
Total Liabilities	112,940	123,144	154,419	162,064
Paid Up Capital	13,353	13,353	13,353	13,353
Total Equity	47,903	47,459	44,747	42,725
<u>INCOME STATEMENT</u>	CY23	CY24	CY25	1QCY26
Net Sales	223,705	256,675	237,131	37,790
Gross Profit	72,297	71,924	72,553	11,731
Operating Profit	51,032	49,284	46,202	7,247
Profit Before Tax	49,693	45,156	40,031	5,819
Profit After Tax	26,191	28,260	22,628	3,578
<u>RATIO ANALYSIS</u>	CY23	CY24	CY25	1QCY26
Gross Margin (%)	32.3%	28.0%	30.6%	31.0%
Operating Margin (%)	22.8%	19.2%	19.5%	19.2%
Net Margin (%)	11.7%	11.0%	9.5%	9.5%
Funds from Operation (FFO)	28,789	10,353	24,365	3,551
FFO to Total Debt*	4.42	0.30	0.36	0.23
FFO to Long Term Debt*	4.81	0.48	0.55	0.27
Gearing (x)	0.14	0.72	1.50	1.80
Leverage (x)	2.36	2.59	3.45	3.79
Debt Servicing Coverage Ratio* (x)	7.67	1.92	1.49	1.02
Current Ratio (x)	0.78	0.76	0.77	0.74
(Stock in trade + trade debts) / STD (x)	34.46	2.81	1.85	1.51
Return on Average Assets* (%)	16.3%	17.1%	12.2%	7.1%
Return on Average Equity* (%)	54.7%	59.3%	49.1%	32.7%
Cash Conversion Cycle (days)	36	46	74	119

ENGRO FERTILIZER LIMITED (Unconsolidated)				
FINANCIAL SUMMARY				(Rs. in millions)
<u>BALANCE SHEET</u>	CY23	CY24	CY25	1QCY26
Property, plant and equipment	78,440	83,137	92,391	102,833
Long Term Investments	101	3,517	3,598	3,598
Stock-in-Trade	5,364	12,205	11,085	24,093
Trade Debts	2,069	5,687	14,200	2,248
Short Term Investments	23,602	2,739	15,063	14,751
Cash & Bank Balances	3,437	4,261	7,949	2,418
Total Assets	147,727	162,922	199,868	199,560
Trade Payables	2,167	939	1,776	3,466
Long Term Debt	25,839	21,598	44,005	52,440
Short Term Debt	323	12,452	23,023	24,493
Total Debt	26,161	34,050	67,028	76,933
Total Liabilities	102,700	116,393	154,908	157,050
Paid Up Capital	13,353	13,353	13,353	13,353
Total Equity	45,026	46,529	44,960	42,510
<u>INCOME STATEMENT</u>	CY23	CY24	CY25	1QCY26
Net Sales	161,666	186,709	193,248	26,339
Gross Profit	59,422	61,538	68,349	10,103
Operating Profit	46,869	48,802	45,788	6,177
Profit Before Tax	44,985	44,820	39,738	4,783
Profit After Tax	25,678	30,207	23,771	2,891
<u>RATIO ANALYSIS</u>	CY23	CY24	CY25	1QCY26
Gross Margin (%)	36.8%	33.0%	35.4%	38.4%
Operating Margin (%)	29.0%	26.1%	23.7%	23.5%
Net Margin (%)	15.9%	16.2%	12.3%	11.0%
Funds from Operation (FFO)	22,965	5,206	22942.7	2886.9
FFO to Total Debt*	0.88	0.15	0.34	0.15
FFO to Long Term Debt*	0.89	0.24	0.52	0.22
Gearing (x)	0.58	0.73	1.49	1.81
Leverage (x)	2.28	2.50	3.45	3.69
Debt Servicing Coverage Ratio* (x)	1.03	1.18	1.42	0.89
Current Ratio (x)	0.72	0.75	0.79	0.75
(Stock in trade + trade debts) / STD (x)	23.02	1.44	1.10	1.08
Return on Average Assets* (%)	17.9%	19.4%	13.1%	5.8%
Return on Average Equity* (%)	58.5%	66.0%	52.0%	26.4%
Cash Conversion Cycle (days)	17	29	49	113

REGULATORY DISCLOSURES

Appendix II

Name of Rated Entity	Engro Fertilizers Limited		
Sector	Fertilizers		
Type of Relationship	Solicited		
Purpose of Rating	Short-term Sukuk Rating		
Rating History	Rating Type: Short Term Sukuk		
	Rating Date	Ratings	Rating Action
	13-May-2026	A1+ (plim)	Preliminary
Instrument Structure	Instrument Name	Short Term Sukuk	
	Nature of Instrument	STS	
	Tenure of Instrument	6 months	
	Size of the Issue	PKR 25 billion (inclusive of a Green Shoe Option of PKR 10 billion)	
	Principle Redemption Schedule	Semi Annual	
	Interest Redemption Schedule	Semi Annual	
	Issue Date	-	
	Grace Period	NA	
	Redemption Date	-	
	Nature of Security	Unsecured	
	Rating	A1+ (plim)	
Name of Trustee	-		
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.		
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.		
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Due Diligence Meetings Conducted	S. No	Name	Designation
	1	Moez ur Rahim	Assistant Manager - Group Treasury
			Date
			07 th May, 2026