Fauji Fertilizer Company Limited

BBA 2K6-A

FINANCIAL

ACCOUNTIG

II

INSTRUCTOR

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PROJECT

TOPIC

FINANCIAL

ANALYSIS

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First of all we are grateful to Allah Almighty who bestowed upon us the strength and ability to complete this project. Our parents played an important role by supporting us during this course of time. We would like to thank our Accounting instructor, Mr. Haroon Rashid for his help and guidance and we would also like to thank Miss Abida and Miss Sadia. Brig. Sajid, who is currently working at FFC , has been of great help to us in providing all the required information related to the company.

Executive Summary

Fertilizer usage has been increasing in the recent past in the country and is anticipated to increase further. Fertilizer has become one of the eight main categories of imports of the country. As Pakistan is an agricultural country, fertilizers are a major concern to the country. Fertilizer industry is the second largest consumer of natural gas with consumption of around 22.5 % of total gas output and is, therefore, directly affected by gas pricing structure. In Pakistan the demand consists mainly of Nitrogen Based Urea and Phosphate based urea (DAP). In the past 25 years, the average demand of Nitrogen based urea in the country was 78% and that of Phosphate was 21% of the total demand.

FFC sells the nitrogen based urea under the name “Sona Urea” and the phosphate based under the name of “DAP”.

Urea:

Urea prices increased by Rs 8.5 becoming Rs 480.70 per 50kg bag showing increase of 1.8% just in the month of January 2005 from December 2004.

Industry Urea production of 4693 thousand tons during the year 2005 improved by 2% by the year 2006 and became 4803 thousand tons. 625 thousand tonnes were imported during the year 2006 by the trading corporation of Pakistan. At the moment there is a huge price differential between the subsidized local urea (Rs528/bag) in Pakistan and the international price (around Rs1000/bag).

DAP (Di Ammonium Phosphate)

Prices of DAP in January from December 2004 however, registered decrease of 1.2% at Rs1,032.80 per 50 kg bag. 846 thousand tones were imported during 2006 out of which 450 thousand tonnes were supplied by FFBL (Fauji Fertilizer Bin Qasim Limited)

-FFC's Performance:

Sales Revenue was recorded Rs 29.95 billion, that is, 18% higher than last year's performance. The factors of high sales of FFC are higher prices of Urea. And with the greatest market share in the industry, FFC is in the position to take full advantage of the increasing demand of urea. Despite Gas prices which increased twice during the year, the company managed to have a gross profit of 6% this year. Besides the revenue being increased, the productivity of the company also increased. The earning per share of FFC was Rs 8.11 in 2004, Rs 9.92 in 2005 and Rs 9.39 in 2006. The Return on Equity was 36.5 % in 2006 as compared to 39.36 % and 32.57% in 2005 and 2004 respectively. The long-term liabilities of the company decreased from Rs. 2.8 million to 981,000 in 2005 and increased to Rs. 1.19 million in 2006. The company earned a profit of Rs. 4.6 million in 2006 contrary to a profit of Rs. 4.8 million in 2005. FFC has made an investment in Pakistan Maroc Phosphore (PMP). The project is being sponsored collectively by Fauji Foundation, FFCL (Fauji Fertilizer Company Limited) and FFBL (Fauji Fertilizer Bin Qasim Limited) in collaboration with OCP, Morocco. This investment will ensure continuous supply of phosphoric acid to FFBL (Fauji Fertilizer Bin Qasim

Ltd). The project is likely to enhance FFC's earnings in the form of dividend income from PMP (Pakistan Maroc Phosphore S.A. Morocco). T FFC announced a final dividend of Rs. 3.9 per share (39%), for the year ended December 31, 2006, in addition to interim dividends of Rs. 6.10 per share (61%),

Comparison with Competitor:

In five years (2001-2006) FFC's gross profit margin has averaged 41% whereas that of Engro has averaged 30.5 %. The freight costs (Transportation, cargo etc) of FFC are higher than Engro likely because FFC has a large Distribution network. In the fertilizer industry, FFC has the lowest overhead cost for the production of per million ton.
Engro Urea sales of 945,000 tons registered a 6% increase over 2005 volume of 890,000 tons.

Weaknesses and Strengths:

FFC is one of the largest single-train urea plants in the world, with a highly sophisticated processing technology and a major shareholder (61.2%) in the urea market of Pakistan. It is the market leader and that is why operational excellence has and has de-bottlenecking abilities. It has three plants in the country one of which (In Mirpur Mathelo) had a daily production of 2.2 thousand tons of urea in January 2006 which is the highest in history.
The plant expansion, if the company is going to do any, will depend on the gas allocation by the Federal government. The demand of urea may fluctuate with respect to different climatic conditions prevailing in the country and the availability of water and also Farmer's buying capacity. The government may revise policies and changes may occur in the

subsidies and gas supply that are provided to the company. The company is also highly dependent on the oil prices as they affect the gas prices.

Future Outlook

Fauji Fertilizers Company and a leading Russian fertilizer company EZOT are planning to set up joint venture to produce Urea and DAP for local consumption as well as for export purposes. The Company plans execution of Plant III de-bottlenecking (Bottleneck-The point at which an industry has to slow its growth because one or more of its components cannot keep up with) during 2007. The Company is evaluating a Wind Power Project at Jhampir - Nooriabad, Distt. Thatta, As FFC has a brand name and has customer loyalty for many years; it is likely to have an edge over the competitors.

Recommendations:

Engro, beside selling fertilizers and seeds, also provides technical and agro economic advices to the farmers which include sample tests for soil and plants. We would recommend that FFC should increase its existing farmer support to a greater extent. FFC also needs to diversify itself more because Engro has great diversification (Customer as well as Manufacturing). It has got manufacturing sites in Iran and Philadelphia and is about to start two more manufacturing sites in Pakistan besides the four already existing ones.

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CHAPTER –I

INTRODUCTION TO FERTILIZER INDUSTRY

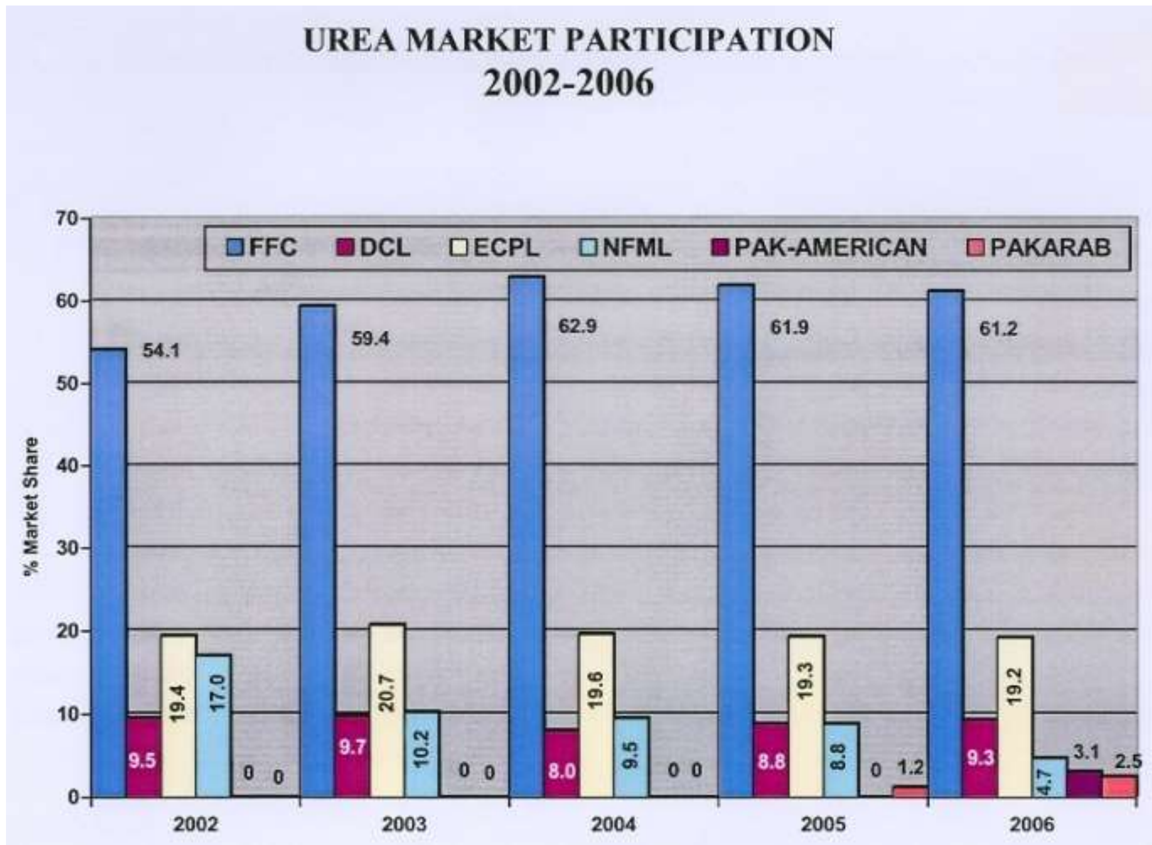
Fertilizer Industry Introduction:

The fertilizer sector in Pakistan comprises of 10 companies 4 of which are in the Public sector (**Hazara Phosphate Fertilizer (Pvt) Ltd**, **Lyallpur Chemical and Fertilizer Limited**, **Pak Arab Fertilizer Limited** and **Pak American Fertilizers Limited**) while 6 are in the private sector (**Engro Chemicals**, **Dawood Hercules**, **Fauji Fertilizer**, **FFC-Jordan**, **Pak China Fertilizer** and **Pak Saudi Fertilizer Company Limited-now owned by FFC**.) Fertilizer production is concentrated in nitrogenous fertilizers, which comprises 85% of all fertilizers produced in the country. Although other types of fertilizers are also produced in Pakistan, the bulk of whose demand is imported. The raw material for other fertilizers such as potassium and phosphate has to be imported and thus local manufacturing is not economically viable as demonstrated by Fauji Jordan's problems.

The local fertilizer companies meet almost 80% of Pakistan's Fertilizer requirement. The remaining of the needed fertilizer is imported so the demands can be met. The total installed capacity is over 5,124 million tons/annum.

The government has privatized and deregulated fertilizer imports and prices. In 1986, all subsidies on nitrogenous fertilizers were abolished followed by phosphates in 1993 and potash in 1997. Provincial quotas were abolished, provincial supply organizations in the public sector abandoned and import controls were lifted. All imports are affected by the private sector.

The following chart shows the summary of the market shares owned by the different Fertilizer companies in the Fertilizer sector.



CHAPTER-II

INTRODUCTION

TO FFC

FFCL (Fauji Fertilizer Company Limited)

Mission Statement:

FFC is committed to play its leading role in industrial and agricultural advancement in Pakistan by providing quality fertilizers and allied services to its customers and given the passion to excel, take on fresh challenges, set new goals and take initiatives for development of profitable business ventures.

Vision Statement:

FFC's vision for the 21st Century remains focused on harmonizing the Company with fresh challenges and encompasses diversification and embarking on ventures within and beyond the territorial limits of the Country in collaboration with leading business partners.

Board of Directors

CHAIRMAN

Lt. Gen. Syed Arif Hasan, HI(M) (Retired)

CHIEF EXECUTIVE AND MANAGING DIRECTOR

Lt. Gen. Munir Hafiez, HI(M) (Retired)

DIRECTORS

Lt. Gen Munir Hafiez, HI(M) (Retired)

Dr. Haldor Topsoe

Mr. Qaiser Javed

Mr. Tariq Iqbal Khan National Investment Trust (NIT)

Mr. Khawar Saeed National Bank of Pakistan (NBP)

Dr. Nadeem Inayat Fauji Foundation

Mr. Istaqbal Mehdi Pak Kuwait Investment Company

Brig. Arif Rasul Qureshi (Retired Maj. Gen Muhammad Tahir (Retired)

Brig. Rahat Khan (Retired)

Mr. Kamal Afsar

Company's Introduction:

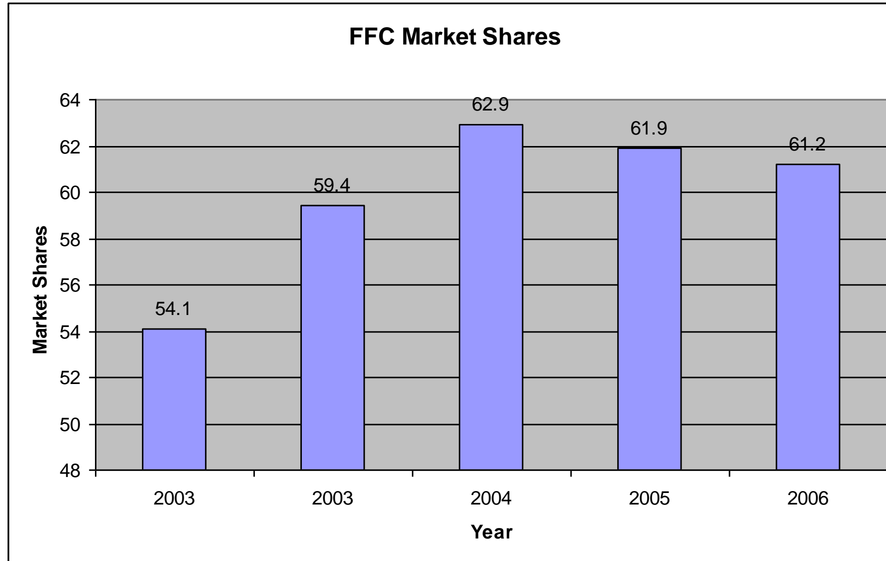
FFC was incorporated in 1978 as a private limited company as a result of a joint venture between Fauji Foundation and Haldor Topsoe A/S of Denmark. The initial authorized capital of the company was 813.9 Million Rupees. The present share capital of the company stands at Rs. 3.0 Billion. FFC commenced commercial production of urea in 1982 with annual capacity of 570,000 metric tons.

The largest urea manufacturing facility of Pakistan consisting of two ammonia/urea units owned by FFC, is built at Goth Machhi in district Rahim Yar Khan . The two plants are based on natural gas from Mari Gas Fields and have an annual designed production capacity of 1.3 million tons of urea. Over the years, the plants have demonstrated an operational excellence which has become a reference for the engineering companies whose process technologies are used here. FFC is one of the largest single-train urea plants in the world.

FFC has a nationwide marketing network divided into three sales zones, fourteen sales regions and 65 sales districts and has more than 3600 dealers.

The Company annually produces 1.9 million metric tons of urea, marketed under the brand name of “Sona Urea”. FFC has been placed amongst the list of top 25 companies of Pakistan by KSE for nine consecutive years. FFC has over 60% shares of urea manufacturing and marketing in Pakistan.

The following chart shows a summary of the market shares of FFC in the last 5 years



Fatima Fertilizer Company which is owned by FFC is establishing a urea and phosphatic plant near Rahim Yar Khan having an annual capacity of around one million tons of fertilizer. It is expected that the plant will come into production during August, 2008.

History:

Production capacity was enhanced by establishing a second plant in 1993 with annual capacity of 635,000 metric tons of urea. FFC participated as a major shareholder in a new DAP/Urea manufacturing complex with participation of major international/national institutions.
The new company Fauji Fertilizer Bin Qasim Limited (formerly FFC-Jordan Fertilizer Company Limited) commenced commercial production with effect from January 01, 2000. The facility is designed to produce 551,000 metric tons of urea and 445,500 metric tons of DAP.
In the year 2002, FFC acquired ex Pak Saudi Fertilizers Limited (PSFL) Urea Plant situated at Mirpur Mathelo, District Ghotki from National Fertilizer Corporation (NFC) through privatization process of the Government of Pakistan. This acquisition at Rs. 8,151 million represents one of the largest industrial sector transactions in Pakistan

In 1991, the company was listed on Karachi and Lahore Stock Exchanges and in 1992 on Islamabad Stock Exchange when it was formed. Shares were offered to the public and company employees.
Based on the exemplary dividends to the shareholders and other criteria of Karachi Stock Exchange, FFC has consistently remained in the list of top 25 best performing companies of Pakistan consecutively for 12 years since 1994.
As a result of excellent performance over the years, the company's ranking in the Karachi Stock Exchange list of 25 companies improved from fifth position in 1995 to second in 1996.

The following is a list representing the achievement of FFC in the KSE.

Year	Position
1994	7th
1995	5th
1996	2nd
1997	1st
1998	2nd
1999	4th
2000	10th
2001	3rd
2002	3rd
2003	11th
2005	8th

Products:

Sona Urea

DAP (DI ammonia Phosphate)

FFC SOP (Sulphate of Potash)

Sona Urea

Sona Urea is the most concentrated solid, straight nitrogenous and most widely used fertilizer in the country. Mostly it is manufactured in the form of prills, but FFC is producing in prilled as well as granular forms.

Sona DAP

Sona DAP is the most concentrated phosphatic fertilizer containing 46% P2O5 and 18% Nitrogen. From nutrients' concentration point of view, it has got the highest quantity of total nutrients in a 50 KG bag i.e. 32 KG of nutrients / bag.

FFC SOP

This fertilizer is an important source of Potash, which is a quality nutrient for production of crops especially fruits and vegetables. FFC SOP contains 50% K20 in addition to 18% sulfur, which is also an

important nutrient especially for oil seed crops and it also has an ameliorating effect on salt-affected soils.

Company's plant s:

Plant I & II **Goth Machii**

Plant III **Mirpur Mathelo**

Competitors:

ECPL (Engro Chemical Pakistan Limited)

DCL (Dawood Corporation (Pvt) Ltd)

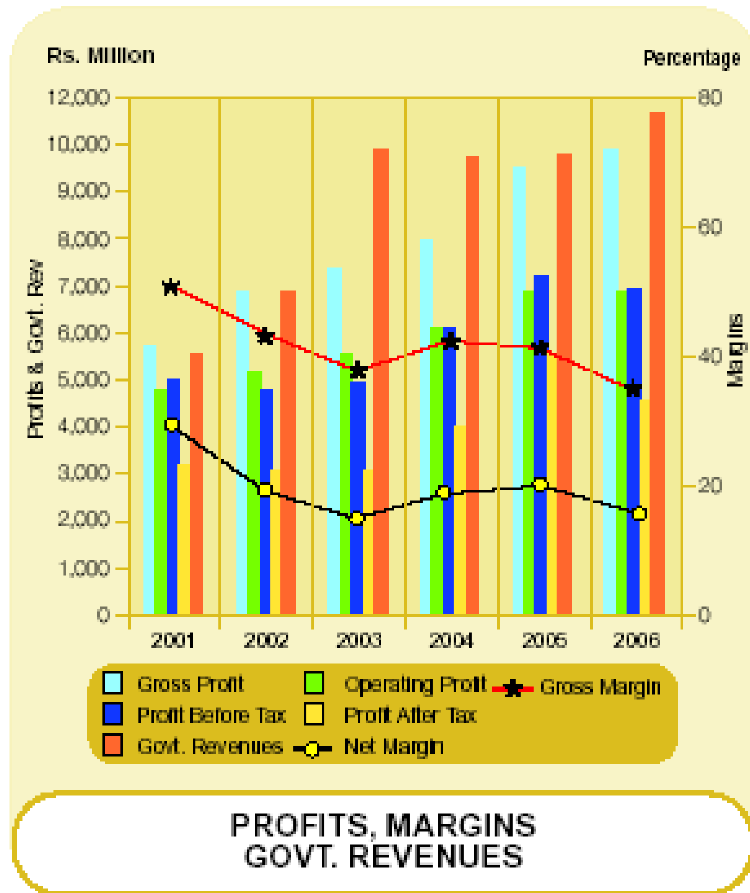
NFML (NATIONAL FERTILIZER MARKETING LIMITED)

PAK-AMERICAN

CHAPTER-III

FINANCIAL

ANALYSIS



PROFITS, MARGINS
GOVT. REVENUES

BALANCE SHEET

In the year **2004,** non-current liabilities have decreased by 4.5% of the last year. The company cleared its payments and long-term financing decreased by a percentage of 35.55.

In the year **2005,** there was a slight decrease of 0.24% in non current liabilities as compared to the previous Fiscal year i.e. 2004 .The major reasons for this decrease were the decrease in the loans from banks including ABN Amro, National bank of Pakistan, Muslim commercial bank and others and the TFCs (Term Finance Certificates) also decreased. In **2004,** the current liabilities have decreased by by 2.9%. The trade and other payables decreased increased by 73.7% due to an increase in accrued liabilities.

Current liabilities increased in **2005** by 7.6% in comparison to 2004 mainly due to the changes in Trade and other payables (Accrued liabilities by43.3% (Rs 283.2 million), Interest and Mark-up Accrued by 7.4 million and an increase in Short term borrowings –Secured from banking companies rose by Rs 2.4 billion).

In **2006**, the total liabilities have decreased by 9.6 % since 2005. This decrease is due to the 13.8 % decrease in current liabilities which was due to the decrease in Advances from customers from 2748929 to 369393. Accrued Interest and mark-up on short-term borrowings has decreased by a percentage of 86.56 . The non-current liabilities increased in 2006 by 21.67% due to the loans taken from NBP (National Bank of Punjab), Habib Bank and Askari Bank Limited.

Assets In **2006**, Total assets have decreased by a percentage of 3.58 there was an 18.75% increase in Long-term loans and Advances part of

which was paid to the executives and there was a 27.98% decrease in long-term Deposits and prepayments mainly due to a decrease of 74.2 % in prepayments.

In **2004**, long-term investments decreased by 17.1%. Investments available for sale decreased by 23.9%. Long-term loans and advances increased by 5.3% in which the major factors were loans and advances to executives. Current Assets increased by 6.9%.
Short-term investment increased by 102.8 %.
A major change was found in Current Assets which was an increase of 19 % in **2005** as compared to 2004. The contributing factors were the increase in inventory as the Stores, Spares and Loose tools, Stock in trade and short term investments increased.
In **2006** there was an increase of 2.2% in Current assets from the year 2005 due to increases in stocks, spares & loose tools (4.9%) and stock in trade (70.02 %) Secured debts have increased by 44.37%. Loans and Advances decreased by 18.46%. The current portion of long-term loans and advances was collected and Advances to suppliers also decreased. There was an increase of 150.33 % in other receivables which were due from the government because it announced a subsidy of Rs 49.8 million. There was a decrease of 60.46% in short-term investments. The company invested in the National investment Trust and Nafa Cash fund which were not performed in 2005. The deposits in local currency accounts and Cash in hand decreased by a percentage of 62.59 and 38.48 respectively.

PROFIT AND LOSS ACCOUNTS

In **2004,** sales decreased by 0.036 %. The cost of sales also decreased by a percentage of 3.9 because of the increase in the amount for Raw materials consumed, salaries and wages and benefits. The Operating expenses increased by 14.8% in which the major expense was Worker's Profit Participation fund.

Sales in the **2005** rose by 21% as compared to 2004. This increase in mainly because of the sale of purchased fertilizers.

In **2006** there was an increase in sales by a percentage of 17.54.

The cost of sales for the **2005** increased by amount Rs 3.2 billion which is almost 25% as compared to the previous year .This change was brought by the consumption of raw materials ,salaries wages and benefits , travel and conveyance and depreciation . Cost of sales – purchased fertilizers also increased by 76% amounting to 2312007.

In **2006, t**he cost of sales increased by 24.23% which was mainly due to more amount of money being used for Raw materials, Fuel and power, Salaries and wages, Rent, Rates and taxes and insurances etc. In 2006 the cost of manufactured urea increased by 16.15 % and that of Purchased urea increased by 40.93%.In **2004,** the distribution cost decreased by 4.8% as compared to 2003. In **2005**, the distribution cost increased by 34%. This was due to the increase in transportation by 45%, Incurring of other expenses and the cost at Travel and conveyance The Distribution costs also increased in **2006** due to increases in transportation charges, salaries and wages, travel and conveyance etc. Other Expenses also increased due to an increase in the worker's Welfare fund and increase in amount used for Research and Development. In **2005** There was an increase of Rs 506193000 which is 54% of last year

caused mainly due the income from the subsidiary in the form of Commission in the sale of FFBL Fauji Fertilizer Bin Qasim Limited) and dividend from FFBL.

In **2006,** Income on loans, deposits and investments decreased by 9.15%. Income from subsidiary FFBL (Fauji Fertilizer Bin Qasim Ltd also decreased by 12.5%. The taxes due in the year 2006 were greater 1.38% more than the previous year.

CASH FLOW STATEMENTS

Operating

In **2004,** Net cash generated from operations increased by 88.39%. Net cash from operating activities increased by 258.8%. The net cash from operating activities decreased by 18.4% and the cash generated from operations decreased by 19% in **2005** . The major cause behind this was the outflow by the provision for slow moving and surplus spares.

In the year **2006**, Rs. 396.3 million of cash has been used for operating activities. The cash generated in the current year reduced by a percentage of 64.8 because the company paid its trade and other payables and also gave cash to borrowers.

Investing

In **2004**, the net cash used in investing activities increased by 278.6%. In **2005** Cash for investing activities increased by Rs 541.2 million which is 51% more than the last year. This major increase was caused by the dividend received from FFBL.

In **2006** Rs 353 million cash was used in 2006 for investing purposes. The capital expenditure increased by 55.6% and FFC also did investment in Pakistan Maroc Phosphore SA Morocco which was 79.84 % more than the year 2005. The dividends received from subsidiary FFBL (Fauji Fertilizer Bin Qasim Ltd) were Rs 218.8 million less than last year.

Financing

In **2004**, the net cash used in financing activities increased by 157.97%. In **2005** cash from financing activities decreased by 37% mainly because of the settling of the short term borrowings.

Rs 2.5 billion were used in financing activities in **2006**. Rs 3.7 billion were used for paying dividends. Cash and cash equivalents at the end of the year were, 45.87% less than the last year by Rs. 3.2 million.

RATIOS

Profitability Ratios

- **GROSS PROFIT RATIO**

This ratio shows the return on nets sales before any revenue is added or other expenses are deducted. The cost of goods sold is deducted from the net sales to show the profit margin for every dollar of sales made. The aim of a business should be to gradually increase the gross profit margin to cover possible increase in other expenses used in calculating the net profit.

Gross Profit Ratio= $\frac{GrossProfit \times 100\%}{NetSales}$

	2006	2005	2004	2003
Gross profit	**9708679**	**9098407**	**7869377**	**8509878**
Net sales	**29950873**	**25481121**	**21027030**	**26214063**
Goss profit ratio	**32.42%**	**35.71%**	**37.4%**	**32.46%**

Analysis:

In 2004 the gross profit ratio has increased by 4.94% due to decrease in net sale. This shows that in this year company's return on net sales has increased and they are efficiently covered all expenses incurred. In 2005 and 2006 gross profit has decreased by 1.69 % and 3.29% respectively due to increase in gross profit and on the other hand net sales have also increased by a great amount. This decrease in ratio is due significant increase in cost of goods sold; showing that company's return on net assets is declining.

- **Net profit margin**

This ratio shows the amount earned by a business in its normal activities after accounting for other revenue and expenses. It is a measure of the efficiency of its operations

$$\text{Net Profit Margin} = \frac{NetProfit}{NetSale}$$

	2006	2005	2004	2003
Net profit	4636144	4897336	4004044	3144509
Net sales	29950873	25481121	21027030	21034629
Net profit margin	15.48%	19.22%	19.04%	14.95%

- **Return on assets**

This ratio adds to the return on equity ratio and it indicates the earning capacity of the business. It allows management to consider whether funds are being effectively used or whether alternative investment strategies should be considered. It is a measure of how efficiently the business assets are being used to produce a net profit for the owner.

Return on assets= $\frac{Netprofit}{AverageTotalAsset}$

	2006	2005	2004	2003
Net profit before taxation	**6985144**	**6888337**	**6103044**	**4930509**
Average total assets	**27939710**	**27446123**	**26831287.5**	**27692806**
Return on assets	**25%**	**25.1%**	**23.07%**	**18.11%**

Analysis

In 2004 and 2005 return on assets has increased by 4.96% and 2.03% respectively. This increase is due the increase in net profit before taxation. However, in 2004 the average total assets has decreased but in 2005 it has increased. This increase has shown that the business assets have been efficiently utilized in both of the years. In 2006, there is a slight decrease of 0.1 % of return on assets indicating decrease in earning capacity of the business. There is a greater decrease in net profit before taxation as compare to the decrease in assets; showing that in this year assets are net being utilized to their full capacity.

- **Return on equity**

This ratio shows the return on the capital invested by the owner. It allows the owner to judge whether the funds invested are being effectively employed. If the return on equity was low, the owner might consider selling the business or withdrawing funds to invest in areas that offer more attractive rates of return on investment.

$$\text{Return on equity} = \frac{Net\ Profit}{average\ Owner's\ Equity}$$

	2006	2005	2004	2003
Net profit	**4636144**	**4897336**	**4004044**	**3144509**
Average owner's equity	**12698725.5**	**12367907.5**	**11908809.5**	**11142884.5**
Return on equity	**36.5%**	**39.6%**	**32.57%**	**28.2%**

Analysis

In 2004 and 2005 the return on equity has increased by 4.37% and 7.03% respectively. This increase in ratio is the result of increase in net profit and owner's equity; showing that return on the capital invested by the owner has increased and the funds invested have been effectively employed. On the other hand in 2006, return on equity has declined by 3.1% because of decrease in net profit. Average owner's equity has increased because company's investments have increased but they were not utilized efficiently and causing decrease in net profit.

Financial stability Ratios

- **Working capital**

It is the excess of current assets of current assets over current liabilities. It measures a company's potential excess sources of cash over its upcoming uses of cash.

$$\text{Working capital} = \mathit{CurrentAssets} - \mathit{CurrentLiabilities}$$

	2006	2005	2004	2003
Current assets	**9764587**	**11464577**	**9546108**	**8927270**
Current liabilities	**10883988**	**12626153**	**8872797**	**8659536**
Working capital	**(1119401)**	**(1161576)**	**673311**	**267734**

Analysis:

In 2004, the working capital has increased by 405577000 due to significant increase in current assets as compare to small increase in current liabilities. This increase in working capital showing that company

has excess of current assets over current liabilities. In 2005, working capital has decreased by 488265000 due to great increase in current liabilities as compare to increase in current assets; showing that the cash usage is greater than the excess sources of cash. In 2006, working has increased by 42175000 due to decrease in current liabilities but still current liabilities are greater than the current assets; showing negative working capital.

- ## Quick Assets Ratio

The quick ratio compares only the most liquid current assets (called quick assets) with current liabilities. It is a measure of short-term debt paying ability.

$$\text{Quick Ratio} = \frac{QuickAssets}{CurrentLiabilities}$$

	2006	2005	2004	2003
Quick Assets	**6609629**	**7947167**	**77941066**	**6558993**
Current liabilities	**10883988**	**12626153**	**8872797**	**8659536**
Quick Assets Ratio	**0.61**	**0.63**	**0.87**	**0.76**

- **Equity ratio**

$$\text{Equity Ratio}= \frac{Total Liabilities}{Shareholders' Equity}$$

It is the degree to which the business relies on the owner's capital to fund its operations. Or in other words, a measure of a company's financial leverage calculated by dividing its total liabilities by stockholders' equity. It indicates what proportion of equity and debt the company is using to finance its assets. A high debt/equity ratio generally means that a company has been aggressive in financing its growth with debt. This can result in volatile earnings as a result of the additional interest expense.

	2006	**2005**	**2004**	**2003**
Total Liabilities	**14473738**	**16008231**	**14148200**	**15696756**
Shareholder's Equity	**12956543**	**12440908**	**12294907**	**11522712**
Equity Ratio	**2.11**	**1.29**	**1.15**	**1.36**

Ratio of efficiency

- ### Inventory Turnover ratio

The inventory turnover rate indicates how many times during the year the company is able to sell a quantity of goods equal to its average inventory. The number of days required to sell this amount of inventory may be determined by dividing 365 days to the turnover rate.

High inventory levels are unhealthy because they represent an investment with a rate of return of zero. It also opens the company up to trouble should prices begin to fall.

$$\text{Inventory Turnover} = \frac{CostOfGoodsSold}{AverageInventory}$$

$$\text{Inventory Turnover in Days} = \frac{365Days}{InventoryTurnover}$$

	2006	2005	2004	2003
Cost Of Goods Sold	**20242194**	**16293642**	**13157653**	**13701319**
Average Inventory	**756688.5**	**389826**	**450238.5**	**656052.5**
Inventory turnover	**26.75**	**41.8**	**29.22**	**20.88**
Days	**14**	**9**	**13**	**18**

- **Receivables Turnover Ratio**

An accounting measure used to quantify a firm's effectiveness in extending credit as well as collecting debts. The receivables turnover ratio is an activity ratio, measuring how efficiently a firm uses its assets. A high ratio implies either that a company operates on a cash basis or that its extension of credit and collection of accounts receivable is efficient. A low ratio implies the company should re-assess its credit policies in order to ensure the timely collection of imparted credit that is not earning interest for the firm.

Receivables turnover Ratio= $\frac{NetSales}{AverageAccountsReceivable}$

	2006	2005	2004	2003
Net Sales	29950873	25481121	21027030	21034629
Average Accounts Receivables	1823166	1602573	2202769	1694268
Receivables turnover Ratio	16.4	15.9	9.5	12.4
Days	22	23	38	29

- **Total Assets Turnover Ratio**

The amount of sales generated for every dollar's worth of assets. It is calculated by dividing sales in dollars by assets in dollars. Asset turnover measures a firm's efficiency at using its assets in generating sales or revenue. It also indicates pricing strategy: companies with low profit margins tend to have high asset turnover, while those with high profit margins have low asset turnover.

$$\text{Assets Turnover Ratio} = \frac{\mathrm{Re}venu}{Assets}$$

	2006	2005	2004	2003
Revenue	**29950873**	**25481121**	**21027030**	**21034629**
Assets	**27430281**	**28449139**	**26831287.5**	**27219468**
Assets Turnover Ratio	**1.09**	**0.90**	**0.80**	**0.77**

Profitability Ratios

- **Earning Per Share**

The portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. It is a net income expressed on a per share basis. An important aspect of EPS that's often ignored is the capital that is required to generate the earnings (net income) in the calculation. Two companies could generate the same EPS number, but one could do so with less equity (investment) - that company would be more efficient at using its capital to generate income and, all other things being equal would be a "better" company. Investors also need to be aware of earnings manipulation that will affect the quality of the earnings number. It is important not to rely on any one financial measure, but to use it in conjunction with statement analysis and other measures.

$$\text{Earning per share} = \frac{Net\ Income - Dividends\ On\ Preferred\ Stock}{Average\ Outstanding\ Shares}$$

	2006	2005	2004	2003
EPS (Pre-tax)	**14.16**	**14.62**	**12.37**	**9.99**
EPS (After tax)	**9.39**	**9.92**	**8.11**	**6.37**

- **OPERATING EXPENSE RATIO**

Operating expenses fluctuated because of petroleum prices, change in wages salaries, warehouse expenses, etc.

$$\frac{Operatingexpense}{Netsales}$$

	2006	2005	2004	2003
Operating expenses	**2746782**	**2371208**	**2327146**	**1851170**
Net sales	**29950873**	**25481121**	**21027030**	**21034629**
Operating expense ratio	**9.17%**	**9.31%**	**11.06%**	**8.8**

(Long-Term) Liquidity Ratios

- **Debt Ratio**

This ratio indicates what proportion of debt a company has relative to its assets. The measure gives an idea to the leverage of the company along with the potential risks the company faces in terms of its debt-load. A debt ratio of greater than 1 indicates that a company has more debt than assets; meanwhile, a debt ratio of less than 1 indicates that a company has more assets than debt.

$$\text{Debt Ratio} = \frac{Total\ Liabilities}{Total\ Assets}$$

	2006	2005	2004	2003
Total Liabilities	**14473738**	**16008231**	**14148200**	**15696756**
Total Assets	**27430281**	**28449139**	**26443107**	**27219468**
Debt Ratio	**0.52**	**0.56**	**0.535**	**0.58**

Analysis:

In 2004, there was a decrease of 0.045 in debt ratio due to slight decrease in both total assets and liabilities. This debt ratio of 0.535 in 2004 indicates that a company had more assets as compare to liabilities. In 2005, this ratio has increased by 0.025 due to the increase in total assets and liabilities further more in 2006, this ratio decreased by 0.04 due to decrease in assets and liabilities; showing that company's reliance on debts

(SHORT-TERM) LIQUIDITY Ratios

- **Current Ratio**

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

	2006	2005	2004	2003
Current assets	**9764587**	**11464577**	**9647408**	**8927270**
Currents liabilities	**10883988**	**12626153**	**8872797**	**8659536**
Current ratio	**0.89**	**0.91**	**1.09**	**1.04**

- **Cash Flow From Operations To Current Liabilities**

Cash Flow from Operations to Current Liabilities=

$$\frac{\text{Cash Flow From Operating Activities}}{\text{Current Liabilities}}$$

	2006	2005	2004	2003
Cash flow from operating activities	**(396291)**	**6177065**	**7574862**	**2028505**
Current Liabilities	**10883988**	**12626153**	**8872797**	**8659536**
Cash flow from operations to current liabilities	**(0.03)**	**0.49**	**0.85**	**0.23**

It indicates the ability to cover currently maturing obligations from recurring operations

- **Operating Cycle**

Days to sell inventory + Days to collect receivables

Indicates in days how quickly cash invested in inventory converts back into cash.

	2006	2005	2004	2003
Days to sell inventory	12	8	11	16
Days to collect Receivables	22	23	38	29
Operating Cycle	36	32	51	47

EVALUATION OF THE CURRENT MARKET PRICE OF COMMON STOCK

- **Price –earning ratio**

$$\text{Price-Earning Ratio} = \frac{Current\ Stock\ Price}{Earnings\ Per\ Share}$$

	2006	2005	2004	2003
Price-Earning Ratio	11.23	13.8	17.19	14.19

It is a valuation ratio of a company's current share price compared to its per-share earnings. A high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E.

- **Dividend yield**

$$\text{Dividend Yield} = \frac{\text{Annual Dividend}}{\text{Current Stock Price}}$$

	2006	**2005**	**2004**	**2003**
Dividend yield	**8.07**	**11.39**	**15.36**	**16.86**

This ratio shows how much a company pays out in dividends each year relative to its share price. In the absence of any capital gains, the dividend yield is the return on investment for a stock. It is a way to measure how much cash flow you are getting for each dollar invested in an equity position. Investors who require a minimum stream of cash flow from their investment portfolio can secure this cash flow by investing in stocks paying relatively high, stable, dividend yields.

- **Book value per share**

$$\text{Book Value per Share} = \frac{\textit{Common Stockholders' Equity}}{\textit{Shares Of Common Stock Outstanding}}$$

	2006	**2005**	**2004**	**2003**
Book value per share	**26.25**	**25.21**	**41.68**	**44.92**

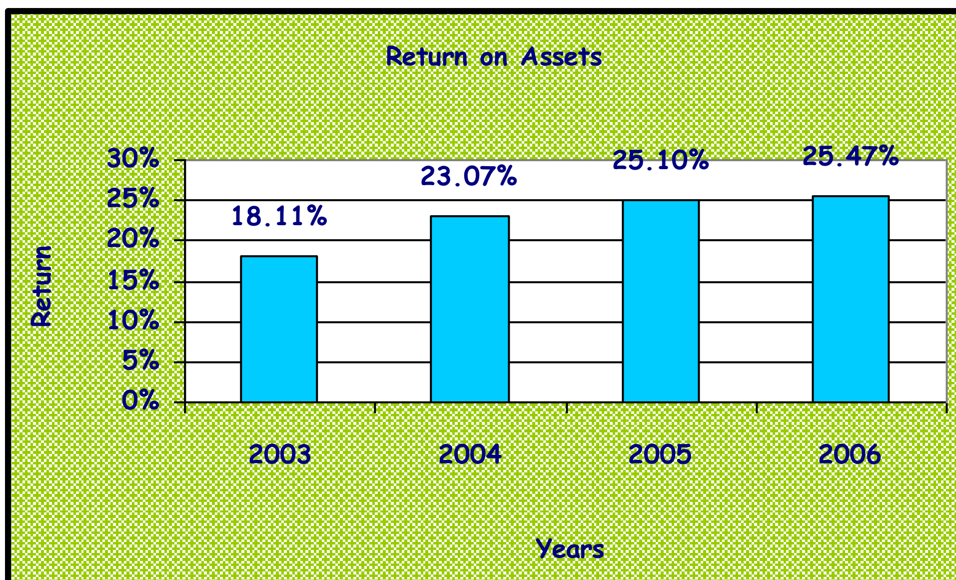
It is the recorded value of net assets underlying each share of common stock

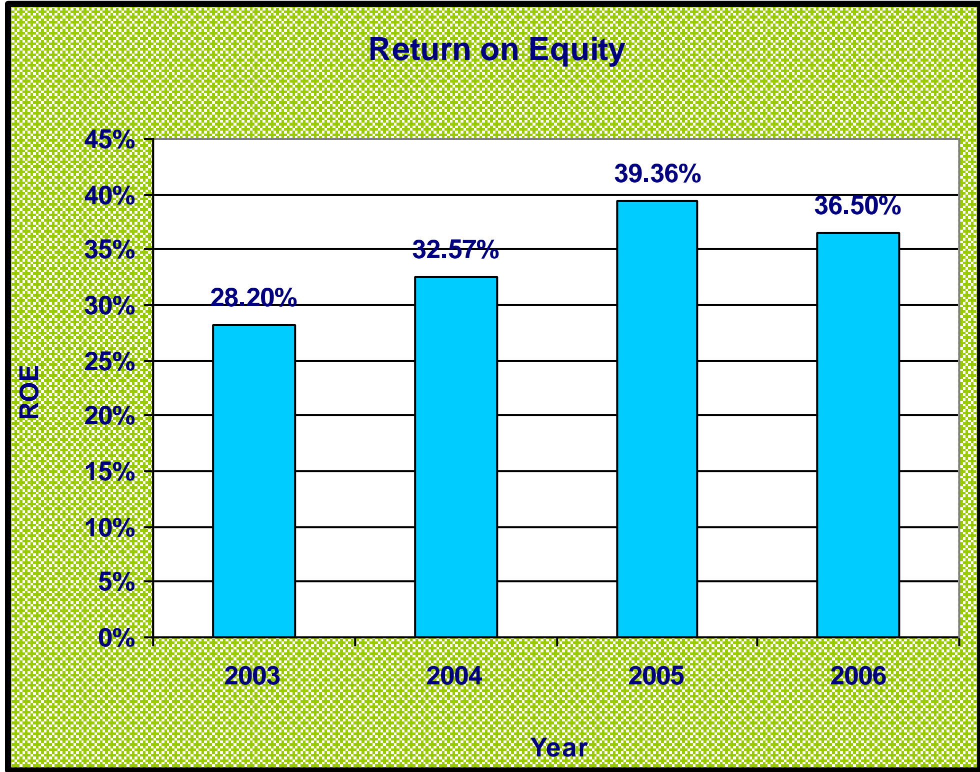
GRAPHS

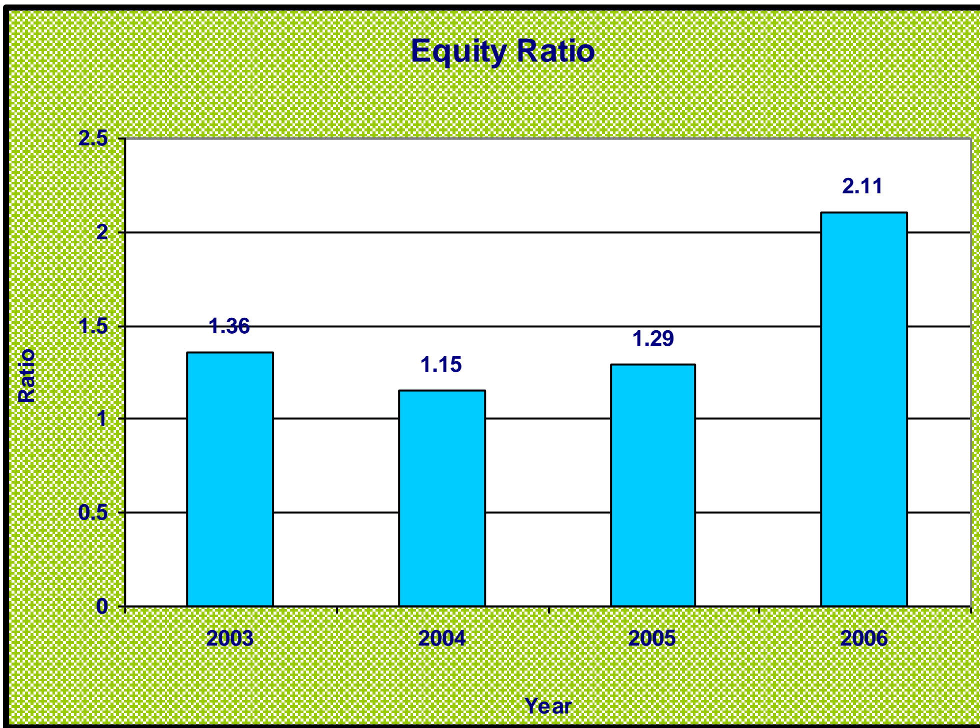
Gross Margin
Gross margin
38%
37%
36%
35%
34%
33%
32%
31%
30%
29%
34.86%
37.42%
37.40%
32.42%
2003
2004
2005
2006
Years

Price Earning Ratio
Ratio
20
15
10
5
0
14.99
17.19
13.8
11.23
2003
2004
2005
2006
Years

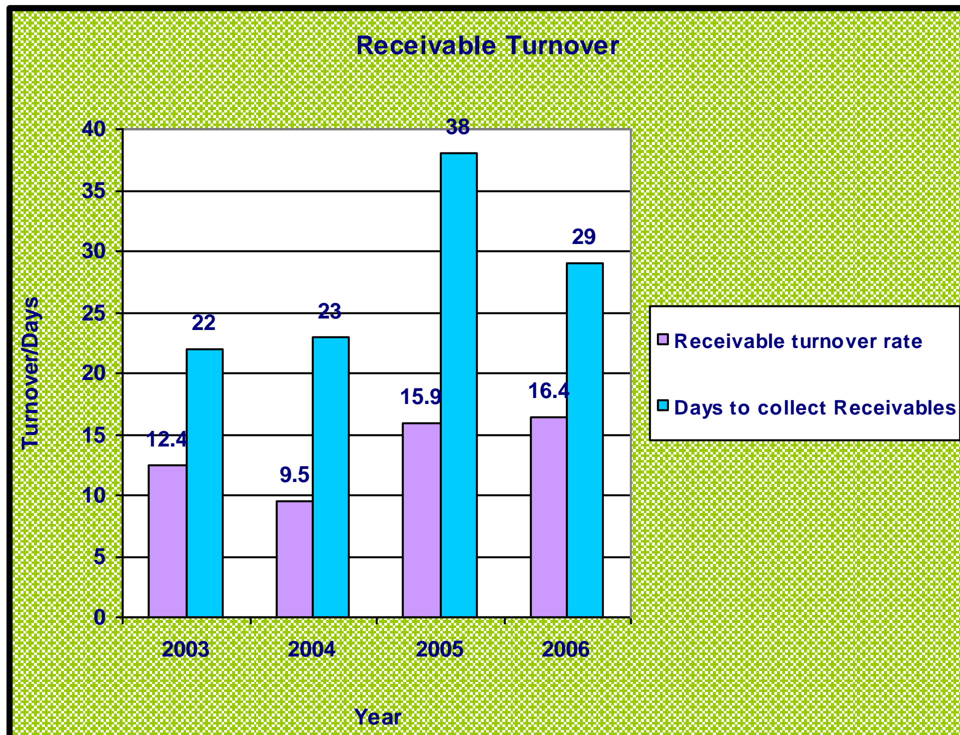
Net margin
Net margin
25%
20%
15%
10%
5%
0%
14.95%
19.04%
19.21%
15.48%
2003
2004
2005
2006
Years

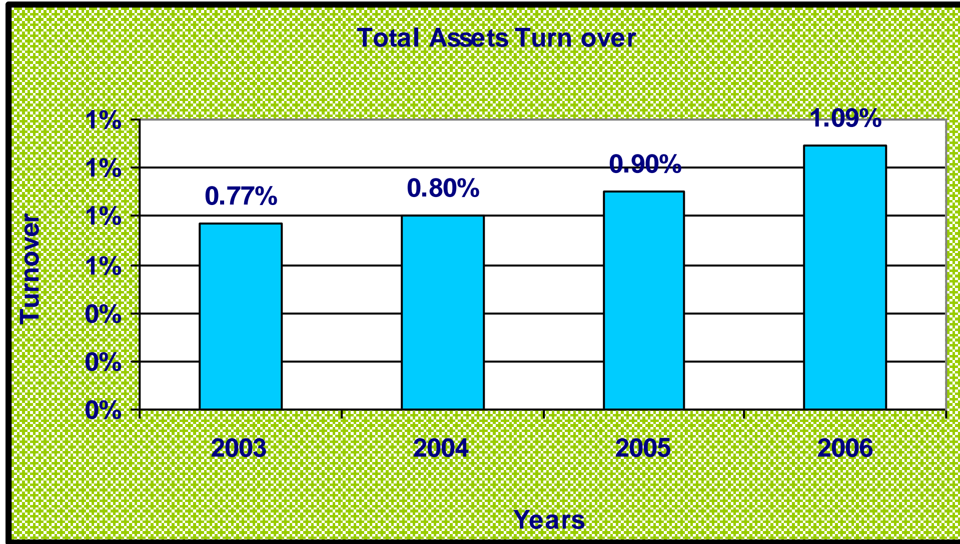

Return on Assets
Return
30%
25%
20%
15%
10%
5%
0%
18.11%
23.07%
25.10%
25.47%
2003
2004
2005
2006
Years

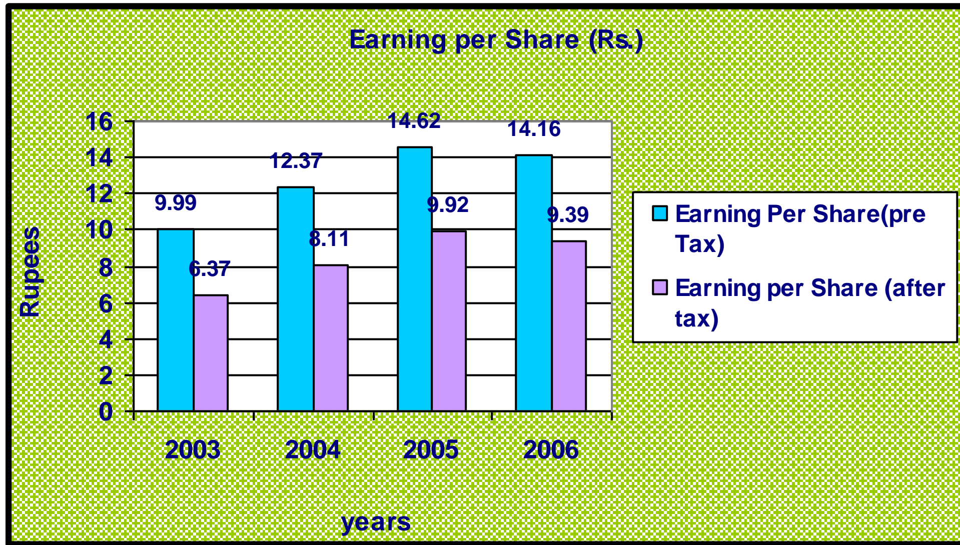

Return on Equity
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
ROE
28.20%
32.57%
39.36%
36.50%
2003
2004
2005
2006
Year


Equity Ratio
2.5
2
1.5
1
0.5
0
Ratio
1.36
1.15
1.29
2.11
2003
2004
2005
2006
Year

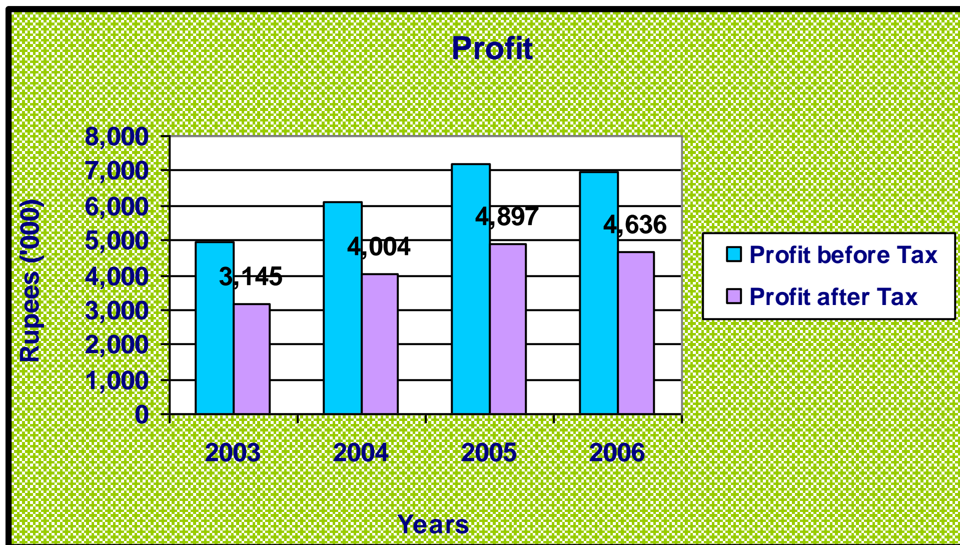
Inventory Turn over
turnover
45
40
35
30
25
20
15
10
5
0
20.88
18
29.22
13
41.8
9
26.75
14
2003
2004
2005
2006
Years
Inventory Turn over(time)
Inventory Turn over (days)

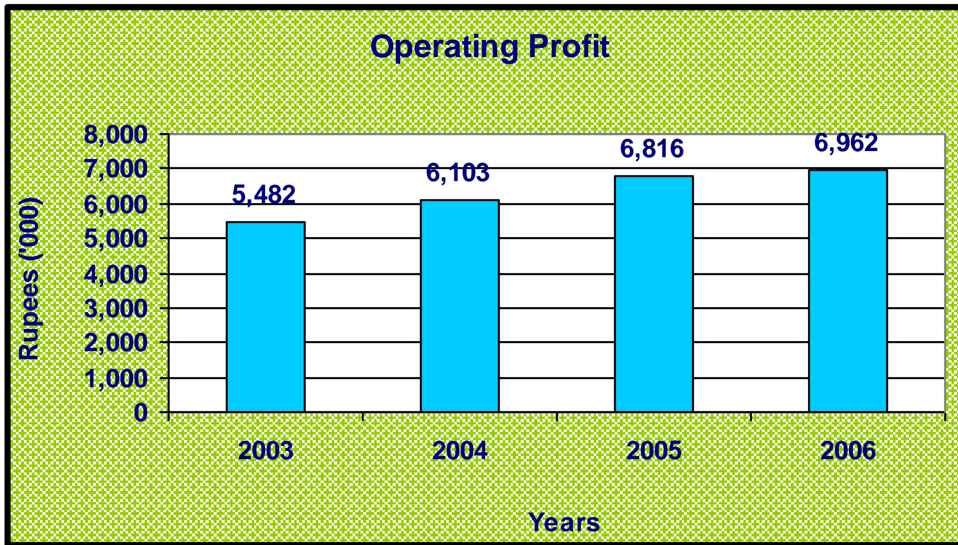

Receivable Turnover
Turnover/Days
40
35
30
25
20
15
10
5
0
12.4
22
9.5
23
15.9
38
16.4
29
2003
2004
2005
2006
Year
Receivable turnover rate
Days to collect Receivables


Total Assets Turn over
Turnover
1%
1%
1%
1%
0%
0%
0%
0.77%
0.80%
0.90%
1.09%
2003
2004
2005
2006
Years

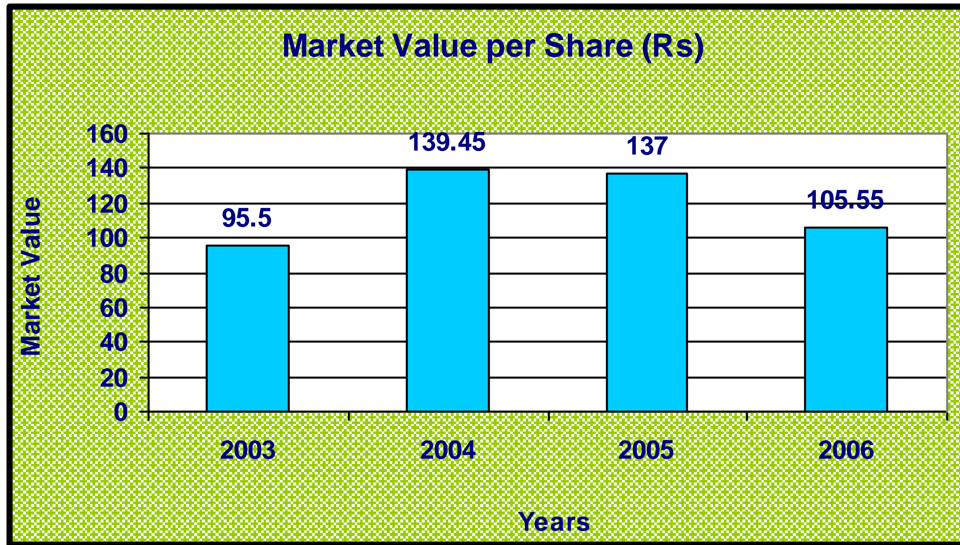

Earning per Share (Rs.)
Rupees
16
14
12
10
8
6
4
2
0
9.99
6.37
12.37
8.11
14.62
9.92
14.16
9.39
2003
2004
2005
2006
years
Earning Per Share(pre Tax)
Earning per Share (after tax)

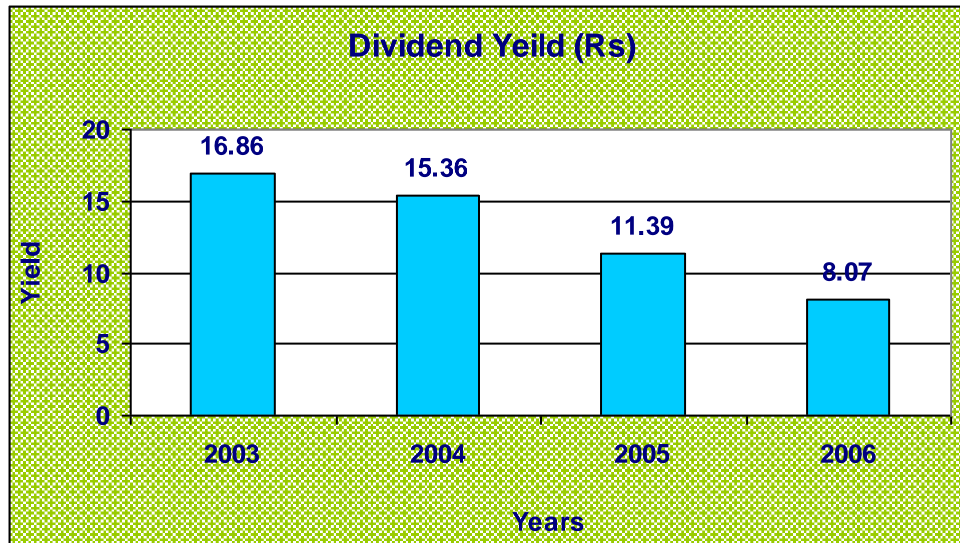
Operating Expense Ratio
Ratio
12%
10%
8%
6%
4%
2%
0%
8.80%
11.06%
9.31%
9.17%
2003
2004
2005
2006
Years

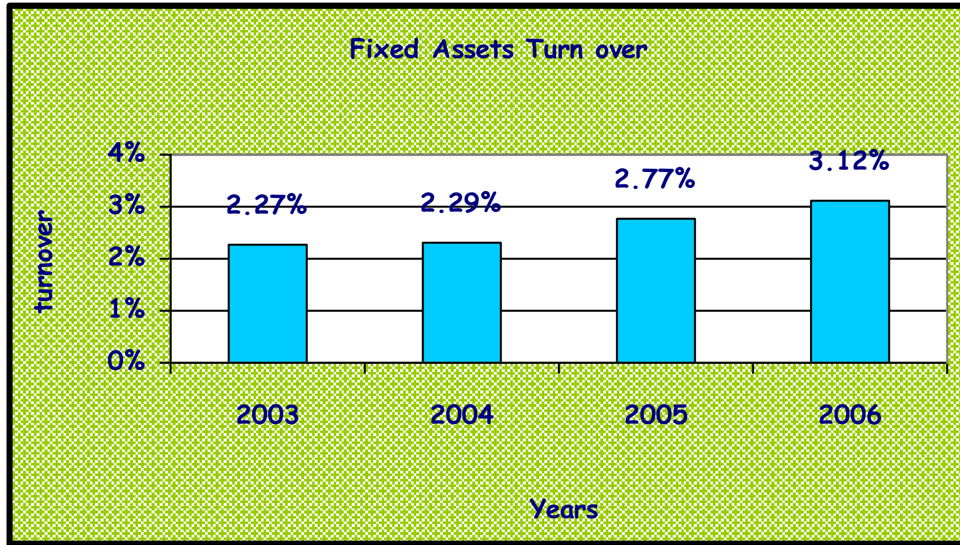

Profit
Rupees ('000)
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
3,145
4,004
4,897
4,636
2003
2004
2005
2006
Years
Profit before Tax
Profit after Tax


Operating Profit
Rupees ('000)
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
5,482
6,103
6,816
6,962
2003
2004
2005
2006
Years

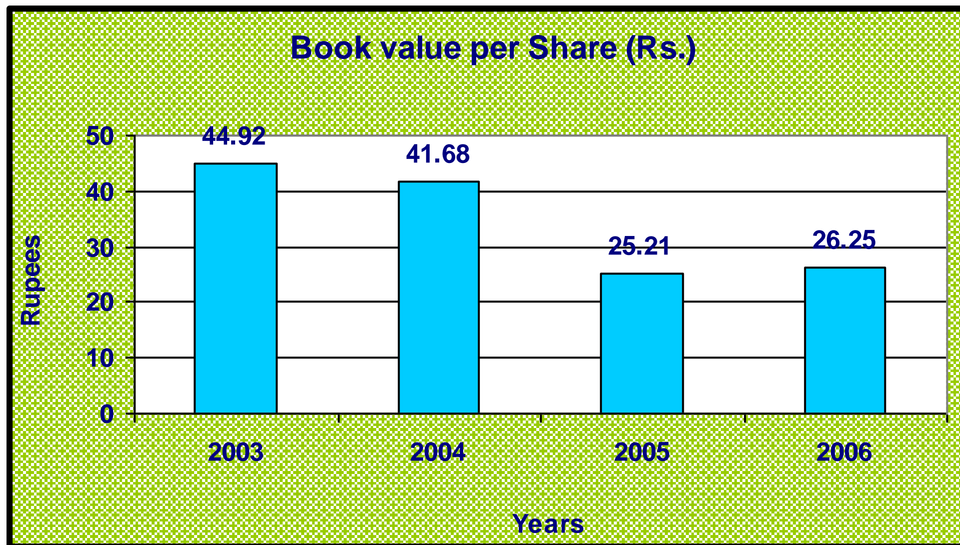
Gross Profit
Rupees ('000)
12,000
10,000
8,000
6,000
4,000
2,000
0
7,333
7,869
9,187
9,709
2003
2004
2005
2006
Years


Market Value per Share (Rs)
Market Value
160
140
120
100
80
60
40
20
0
95.5
139.45
137
105.55
2003
2004
2005
2006
Years


Dividend Yeild (Rs)
Yield
20
15
10
5
0
16.86
15.36
11.39
8.07
2003
2004
2005
2006
Years



Fixed Assets Turn over
turnover
4%
3%
2%
1%
0%
2.27%
2.29%
2.77%
3.12%
2003
2004
2005
2006
Years



Book value per Share (Rs.)
Rupees
50
40
30
20
10
0
44.92
41.68
25.21
26.25
2003
2004
2005
2006
Years

Chapter 4

Competitor

Analysis Engro

Engro:

Introduction

Engro is an agri based company. Their manufacture and market chemical fertilizers. Engro is one of Pakistan's largest producers of urea fertilizer which is manufactured at Daharki and marketed under brand name Engro. They also produce crop specific NPK fertilizers at their plant at Port Qasim Karachi and these are marketed under the brand name of "Zarkhez". Engro also markets imported MAP fertilizer under the brand name of "Zorawar" and imported DAP fertilizer. The company also markets micronutrients Zinc Sulphate branded as "Zingro" and Boron branded as "Zoron"
Engro Chemical Pakistan Limited is the second largest producer of Urea fertilizer in Pakistan. The company was incorporated in 1965 and was formerly Exxon Chemical Pakistan Limited until 1991, when Exxon decided to divest their fertilizer business on a global basis and sold off its equity of 75% shares in the company. At the present it owns more than 19.2% of Fertilizer market shares. During 2006, Engro's major diversification initiatives were started; which were Gas allocation to setup new urea plant at an estimated cost of $950m

ANALYSIS

BALANCE SHEET

SHARE CAPITAL AND RESERVES

In 2003-04

Share capital and reserves increased by 6.24% in 2004 as compared to amount in 2003. This increase in capital is due to an increase in reserves revenue and unappropriated profit by 7.26% and 16.11% respectively.

In 2004-05

Share capital and reserves increased by 125.89% as compared to the amount of 2004. Profit increased by 789682 resulted in 1416926 at the end of the year.

In 2005-06

There is a 10% increase in no. of outstanding shares in year 2006. 1,529,400 new shares of Rs.10 each were issued. Company got share premium of Rs. 1,068,369 on issuing new shares. Unappropriated profit also increased by 54% i.e. 773,222,000. These transactions together brought a positive change of 27.042% (1,994,531,000) in total stockholder's equity.

LIABILITIES

NON CURRENT LIABILITIES

In 2003-04

Non-current liabilities have decreased by 15.39% in 2004 as compared to that of 2003. This significant decrease is due to decrease in redeemable capital which is the consequence of decrease in long term finance utilized under mark-up arrangements. The factor involved in this decrease is long term loans which are null in 2004. Moreover during this year ENGRO has entered into an agreement with a financial institution for lease of a vehicle which has caused an increase in liabilities against asset subject to finance lease.

In 2004-05

Non current liabilities have been increased by 8.89% change in 2005 with respect to 2004. Due to increase of deferred taxation by 10.21% in 2005.

In 2005-06

Overall non current liabilities decreased by 24.585% due to 37.662% decrease in redeemable capital.

CURRENT LIABILITIES

In 2003-04

Current liabilities have increased by 24.68% in 2004 as compared to that in 2003. This considerable increase is due to increase in current portion of redeemable capital, long term loans and liabilities against assets subject to finance lease. Moreover in the year 2004 no tax payment is required.

In 2004-05

Current liabilities have been decreased by 6.19% in 2005 from 2004. There was decrease in redeemable capital by 36.72% but also increase in short term borrowings by 59.20% which balances the overall change.

In 2005-06

Current liabilities are increased during FY 2005-2006 at a rate of 30.082% because of high current portion of redeemable capital (58.182%). Company also secured short term borrowings (1,299,961,000) to finance company's growth. Taxation also increased 66.526% causing an overall increase of 30.082% (842,321,000) in current liabilities.
Overall increase in total liabilities is of 13.246%.

TOTAL ASSETS

FIXED ASSETS

In 2003-04

In 2004 fixed assets has been decreased by 0.96% as compared to that in 2003. During this year company has reclassified the cost of catalysts from deferred cost to plant and machinery category, resulting in an increase in cost charged to property, plant and equipment. Depreciation, amortization and capital work in progress has also increased. The net book value of intangible assets (which are included in the fixed assets) has decreased due to increase in cost and amortization of the intangible assets. In 2004 fluctuations has also occurred in the investments in other companies like joint venture with Engro Vopak Terminal and Engro Asahi Polymer and chemicals limited.

In 2004-05

In the year 2005, company faced 3.61% decrease in property, plant and equipment head also increase in intangible assets by 117.52%. Overall decrease in the fixed assets was 3.44%.
In this year, long term investments increased by 52.50% as compared to the last year. Long term moans, advances and other receivables increased by amount of 26.40%.

In 2005-06

Fixed assets suffered a decrease of 4.129% because of increased depreciation and amortization. Company also sold 38 acres land at port Qasim to its subsidiary company Engro Asahi Polymers & Chemicals Ltd. Long term investments increased by 68.339% because company invested in other subsidiaries companies. Engro acquired equity in Engro Eximp (Pvt) limited, Engro Management Services (Pvt) limited, Engro Foods Ltd, Engro Energy (Pvt) Ltd, Engro Innovative Automation (Pvt) Ltd and Engro Asahi Polymer & Chemicals Ltd. Cash and bank balances also increased by 58.010% due to significant return on deposits and account.

CURRENT ASSETS

In 2003-04

Current assets have increased by 9.85% in 2004 as compared to that in 2003. This increase is due to decrease in provision for surplus and slow moving items. Moreover the increase in finished goods has caused an increase in stock in trade (account receivable). Also the remarkable increase in loans, advances, deposits, prepayments and short term investments has also contributed in an increase in current assets.

In 2004-05

Current assets have been increased by 8.88% as compared to 2004. Stock-in-trade increased by 296.70% due to the over supply to the retailers and they failed to sell resulted in piled up inventory but this change was almost balanced by decreases in other current assets that is why over all change do not seems to be significant.

PROFIT AND

LOSS

ACCOUNT

PROFIT AND LOSS ACCOUNT (2004)

In 2003-04

Net sales in 2004 have increased by 7.68% compared to that in 2003 whereas the sales tax on the purchased products is decreasing. On the other hand, cost of sales in 2004 has increased (14.66%) due to increase in manufacturing cost and cost of goods manufactured. The increase in net sales is comparatively less than an in increase in cost of good sold which subsequently leads to decrease in gross profit.

The decrease in selling and distribution expenses, other financial and operating charges, the increase in other income (dividend income, income on deposits and profit on disposal of fixed assets) has still caused a decrease in profit before taxation. This decrease shows that the impact of decrease in gross profit is significant. But at last the decrease in taxation (8.08%) has raised the value of profit after taxation (2004) by 3.45% as compared to that in 2003. this increase in profit after taxation has raised the earning per share value from 10.18 (2003) to 10.53 (2004).

In 2004-05

Net sales in 2005 have increased by 42.80% due to the increase in production. Production was increase from 4.7 millions tons in 2004 to 5.2 million ton in 2005. During the year, urea production grew 7% and also company launched its new product Engro EN. Efficiency of the plants has been increased as stated in the director’s report of the year 2005.

Cost of goods sold has been increased as price of imported fertilizers rise.

Selling and administrative expense increased by 22.59% because of its transportation and handling expense by 34.94% due to increase in cost of fuels.

Other income increased in Dividends Receivables from different subsidiaries of company. Also increase in reversal of resignation gratuity provision and profits on disposal of fixed assets. Disposal of assets mainly includes disposal of vehicles of executives.

Other operating changes increased due to worker's profit participant's fund. Overall changes resulted in 43.99% increase in profit after taxation.

In 2005-06

Revenue from net sales decreased because company generated low revenue from purchased products. Revenue from the sale of its own products is increased by 6.5% but revenue from sale of purchased products decreased by 15.862%. Cost of goods sold is decreased by 6.756% due to fewer raw materials consumed. And company had a higher profit of 7.451% than FY 2005. Engro incurred 29.450% high finance cost during 2006; mark-up on redeemable capital and long term loans and short term borrowing

CASH FLOWS

In 2003-04

Cash inflow from operating activities has decreased by 44.15% in 2004 as compared to that in 2003. The decrease is due to decrease in

cash generated from operations (due to decrease in profit before taxation). There is also a significant increase (263.31%) in retirement and other service benefits paid and tax payment has also increased (101.25%).

Cash flow from investing activities section (2004) is showing a significant change, as in 2003 there was an outflow of Rs.70061000 but in 2004 there is an inflow of Rs.27938000.this change is due to an increase in sale proceeds on disposal of fixed assets (17.71%) and the amount of the dividend received (50.43%). Further more there is no long term investment involved in 2004.

Cash outflow from financing activities has decreased in 2004 by 42.06% as compared to that in 2003. This change is due to decrease in proceeds from and repayment of redeemable capital. Further more the assets which were subject to finance lease have created income for the company which wasn't there in 2003. There is no repayment of long term loans in 2004 as any long term investments were made. Also decrease in dividend paid has caused a decrease in cash outflow.

In result the cash and cash equivalents at the end of the year (2004) has increased by 10%. This change is basically due to an increase in short term investments and null balance in short term borrowings.

In 2004-05

Cash flows from operating activities

Cash generated from operations decreased by 3% but an over all increase in cash flows from operating activities 38%. Company succeeded to control its outflows from operating activities.

Cash flows from investing activities:-

Engro urea invested 748,200,000 in its subsidies. This resulted in increase in outflows from investing activities. Overall increase in outflow was 914.32%.

Cash flows from Financing Activities:-

The outflows from redeemable capital increased by 84.93% resulted in increase of outflows from financing activities. In this year, company also repaid long term loans of 594500. Over all increase in outflows from financing activities was166.96%.

In the year 2005 engro urea faced Net Decrease in the cash and cash equivalents which was (1024870). The percentage change was 385.91% as compared to previous year performance. The year end cash and cash equivalents were decreased by 44.45% in comparison of the last year.

In 2005-06

Cash flow from operating activities:-

There is 0.005% decrease in operating cash inflow in 2006. Main transactions responsible for lower operating cash inflow are high depreciation, increased retirements/other benefits and financial charges (+24.902%). There is a higher outflow of cash in finance cost (+54.716%), taxes and lower inflow of long term loans and advances (-118.470%).

.

Cash flow from investing activities:-

202.712% high cash outflow is shown in FY 2006. The company invested in capital during the year. A huge amount is also invested in subsidiaries companies resulting in high cash outflow in investing activities.

Cash flow from financing activities:-

Financial statements show a 43.144% decrease in cash outflow because company paid no long term liabilities as in FY 2005 (594,500,000) and cash outflow for repayment of redeemable capital is less than FY 2005. It paid 18.422% high dividend than FY 2005 but overall cash outflow is lower than FY 2005.

Net decrease in cash and cash equivalents in FY 2006 is 46.656% (546,704,000) and is lower than that of 585.914% in FY 2005 (1,024,870,000).

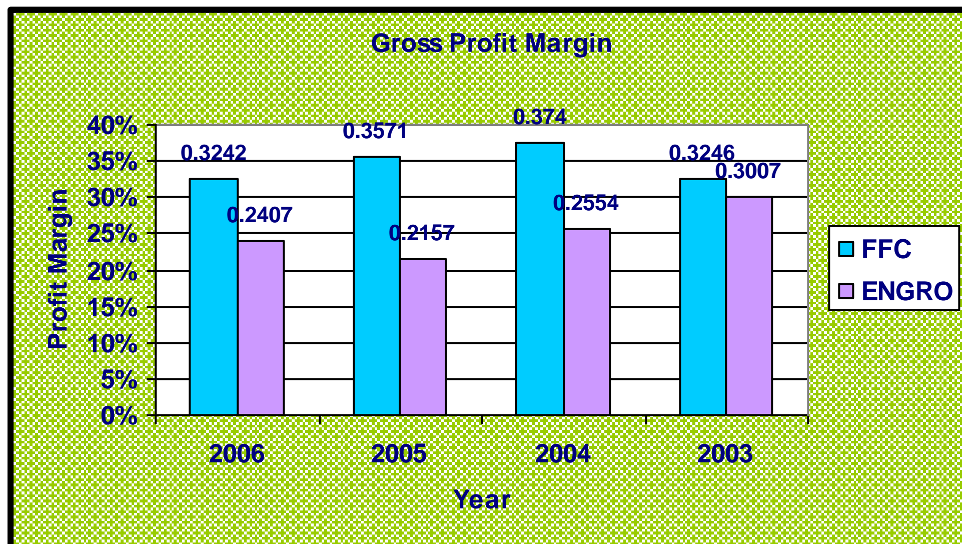
Cash and cash equivalents inflow of 42.695% at the end of FY 2006 (733,797,000) is less than 44.456% decrease in FY 2005 (1,280,501,000). This is due to short term borrowings of 1,299,961,000 in FY 2006.

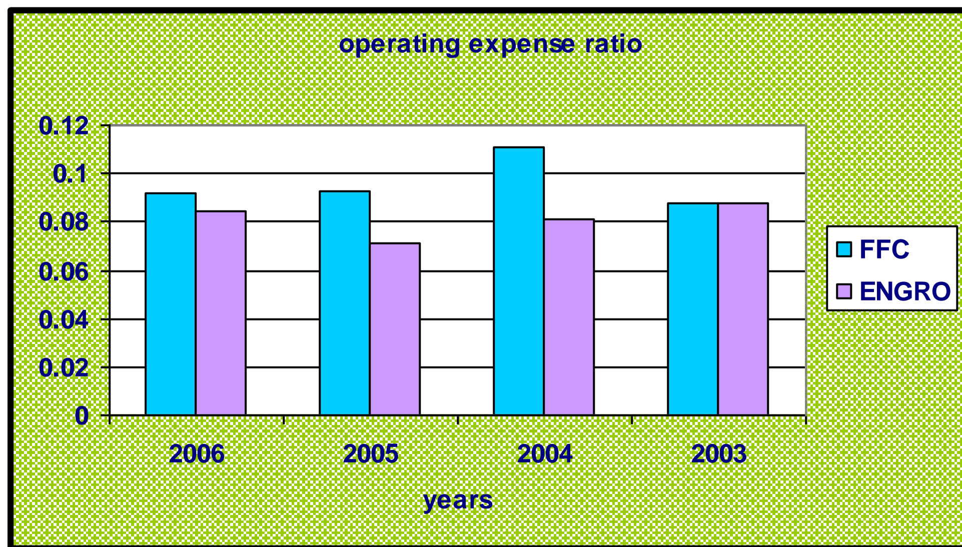
RATIOs

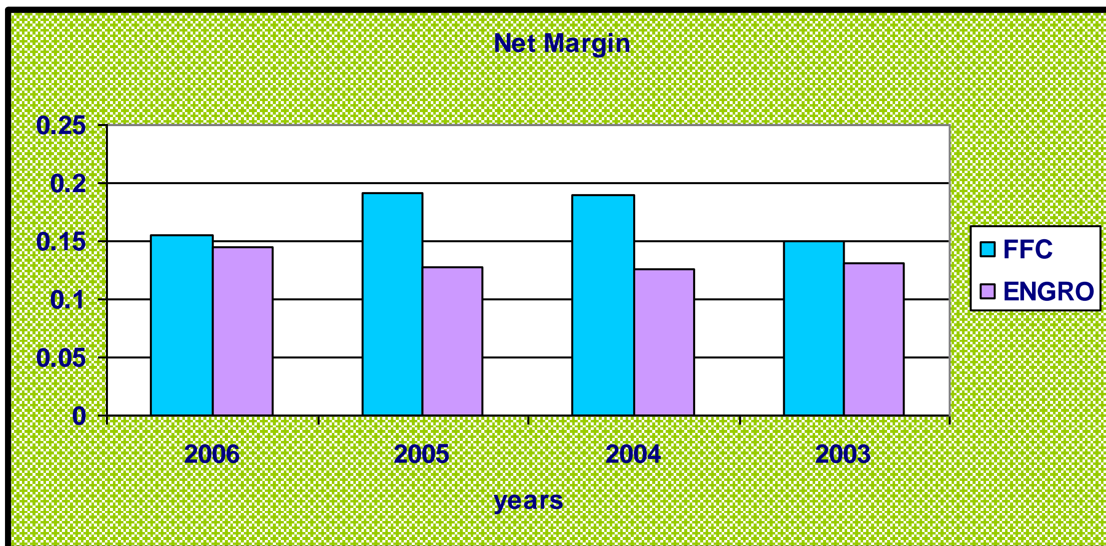
Graphs

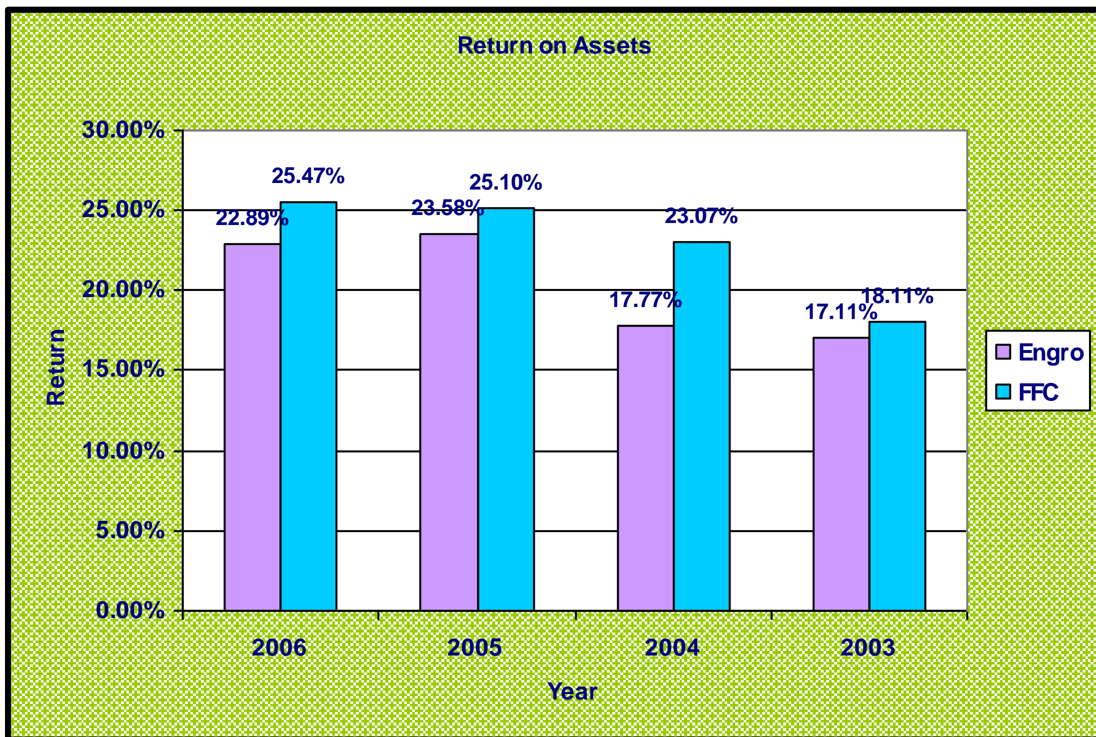
FFC VS

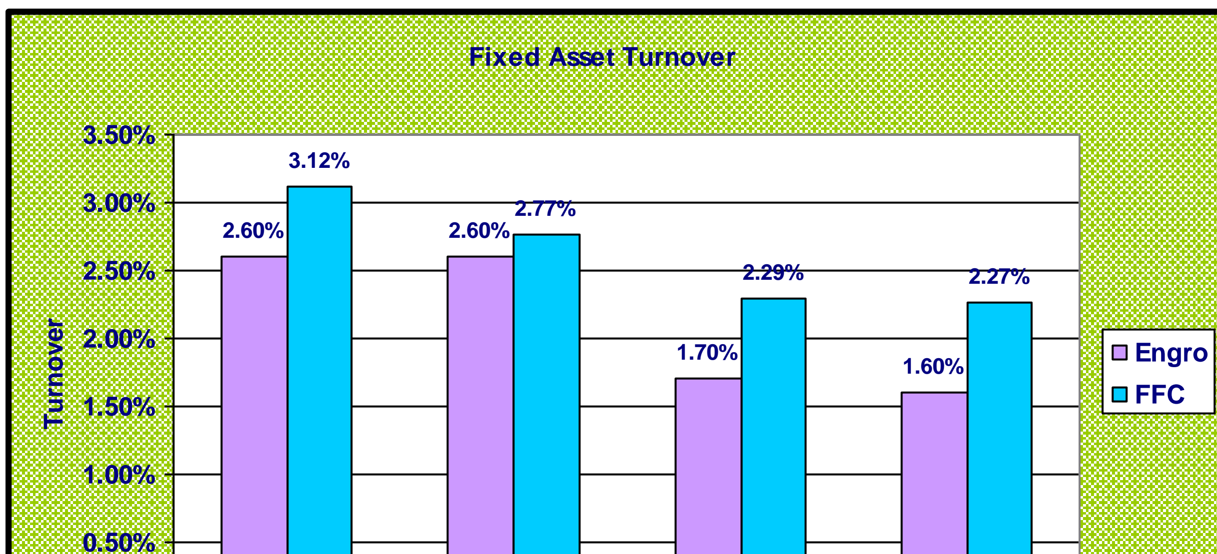
ENGRO

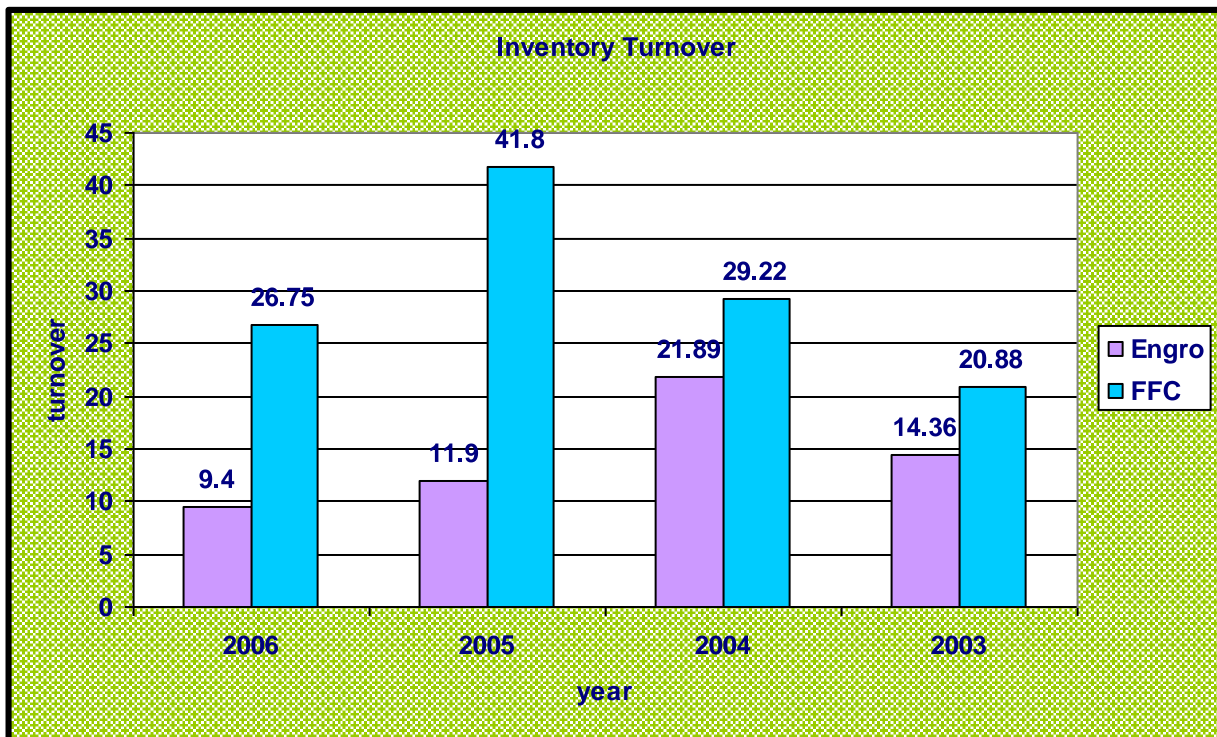


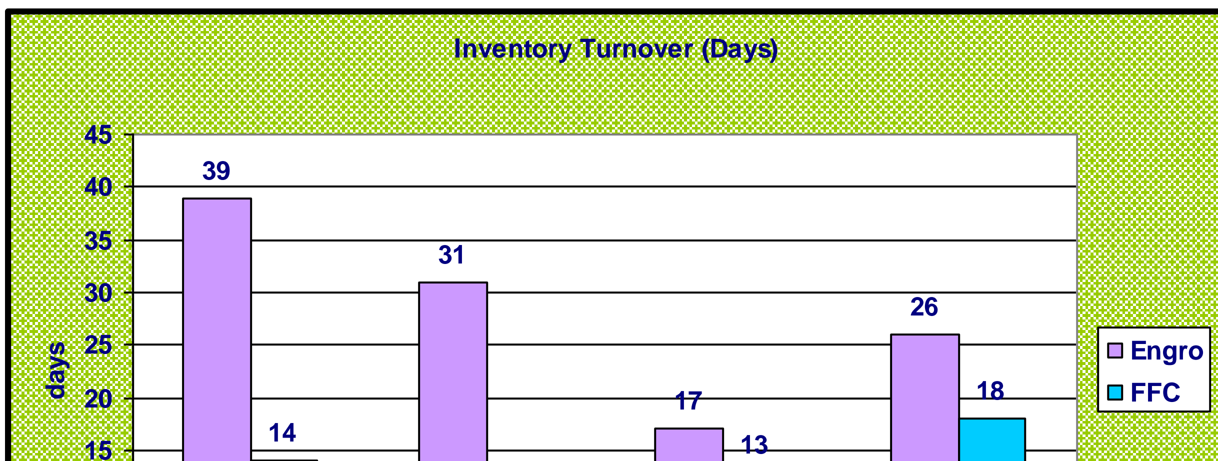

operating expense ratio
0.12
0.1
0.08
0.06
0.04
0.02
0
2006
2005
2004
2003
years
FFC
ENGRO

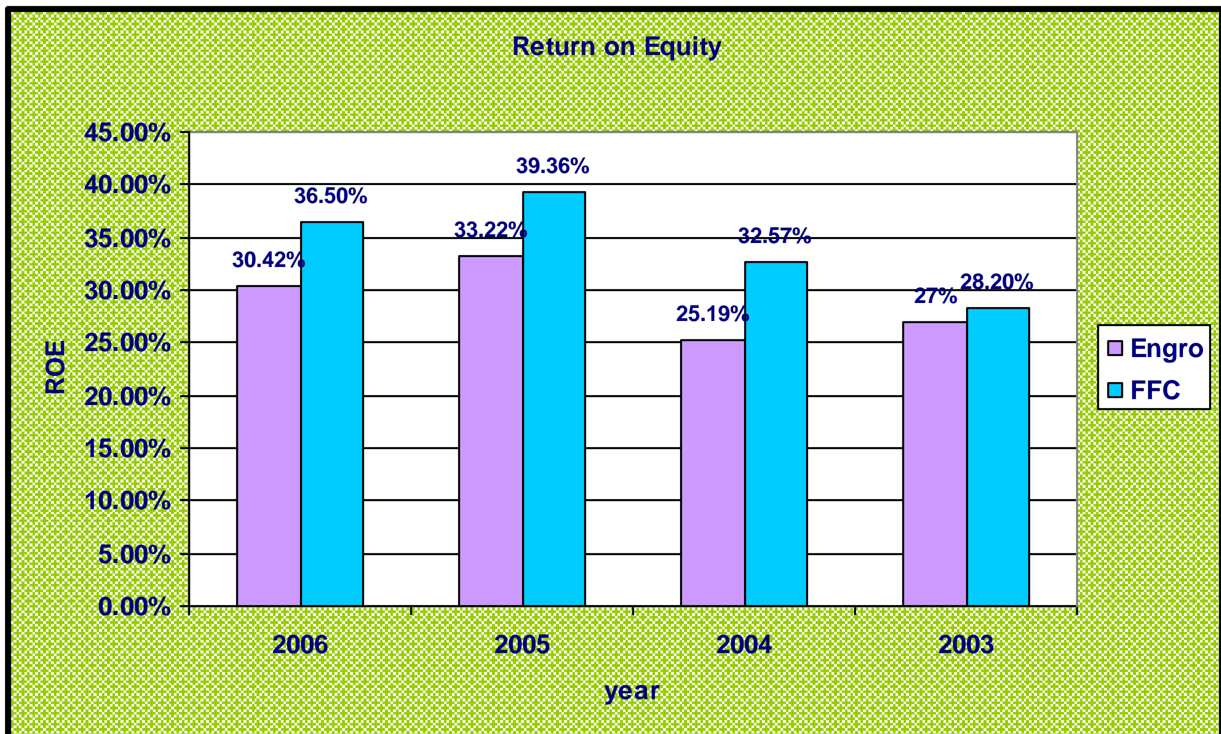

Net Margin
0.25
0.2
0.15
0.1
0.05
0
2006
2005
2004
2003
years
FFC
ENGRO

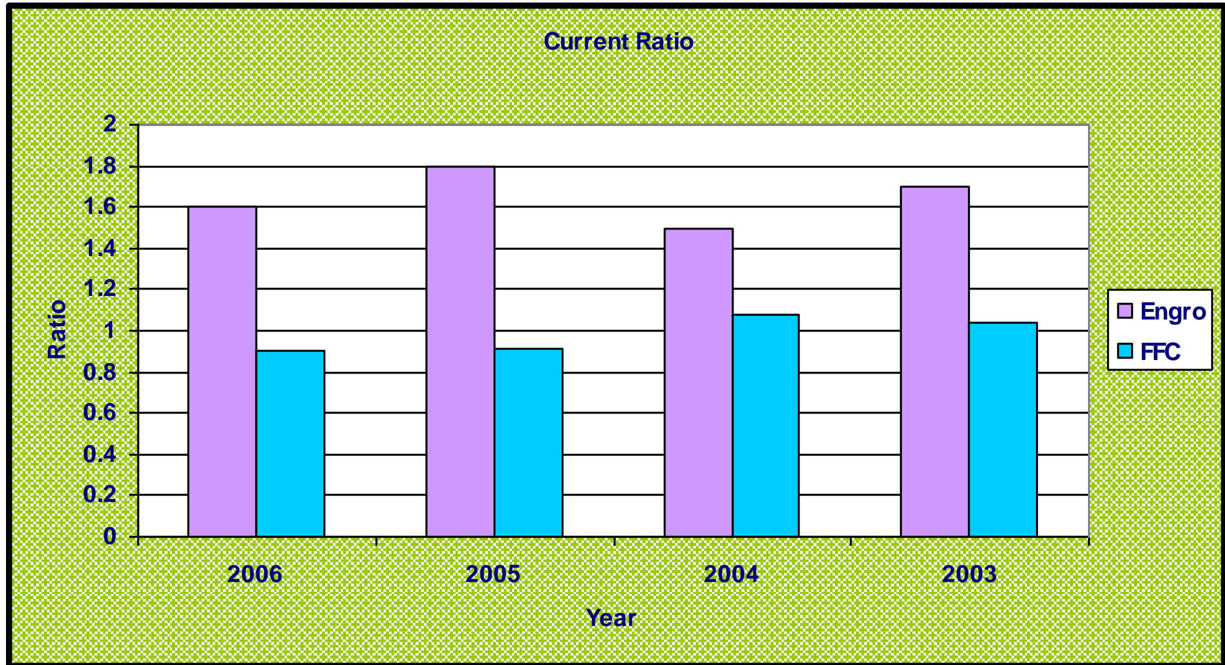

Return on Assets
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
Return
22.89%
25.47%
23.58%
25.10%
17.77%
23.07%
17.11%
18.11%
2006
2005
2004
2003
Year
Engro
FFC

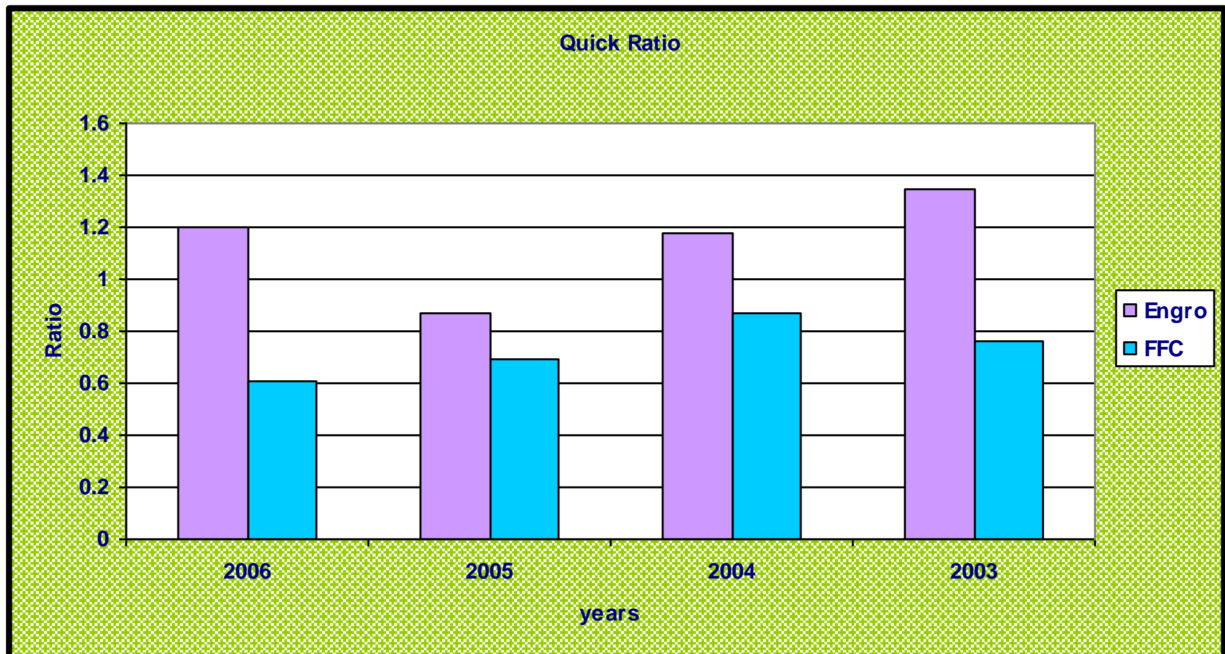

Fixed Asset Turnover
3.50%
3.00%
2.50%
2.00%
1.50%
1.00%
0.50%
Turnover
2.60%
3.12%
2.60%
2.77%
1.70%
2.29%
1.60%
2.27%
Engro
FFC

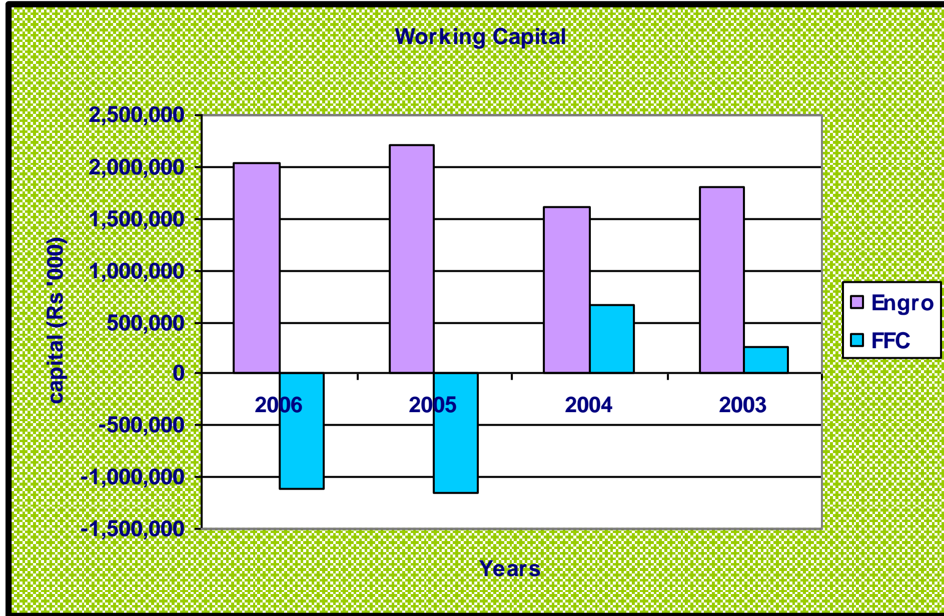

Inventory Turnover
turnover
45
40
35
30
25
20
15
10
5
0
9.4
26.75
11.9
41.8
21.89
29.22
14.36
20.88
2006
2005
2004
2003
year
Engro
FFC


Inventory Turnover (Days)
days
45
40
35
30
25
20
15
39
14
31
17
13
26
18
Engro
FFC

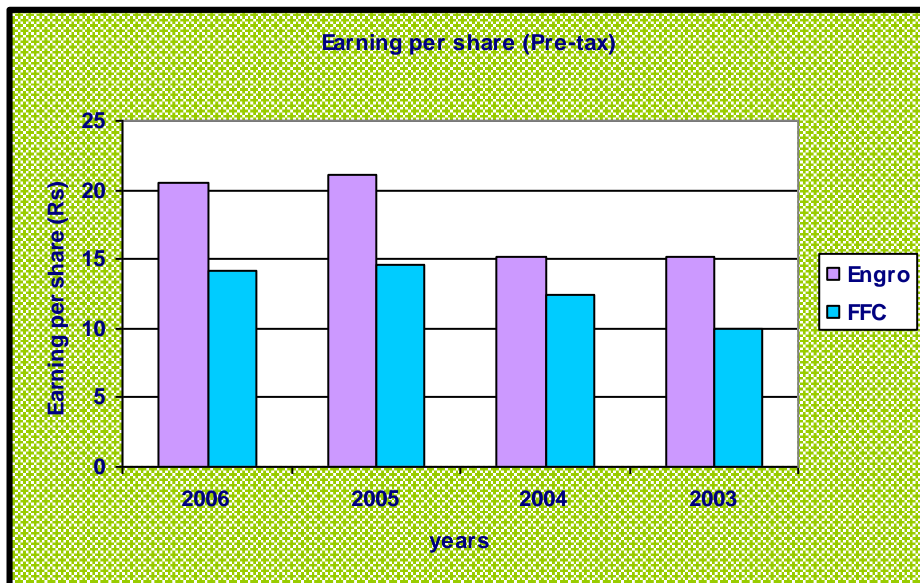

Return on Equity
45.00%
40.00%
35.00%
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
ROE
30.42%
36.50%
33.22%
39.36%
25.19%
32.57%
27%
28.20%
2006
2005
2004
2003
year
Engro
FFC


Current Ratio
Ratio
2
1.8
1.6
1.4
1.2
1
0.8
0.6
0.4
0.2
0
2006
2005
2004
2003
Year
Engro
FFC

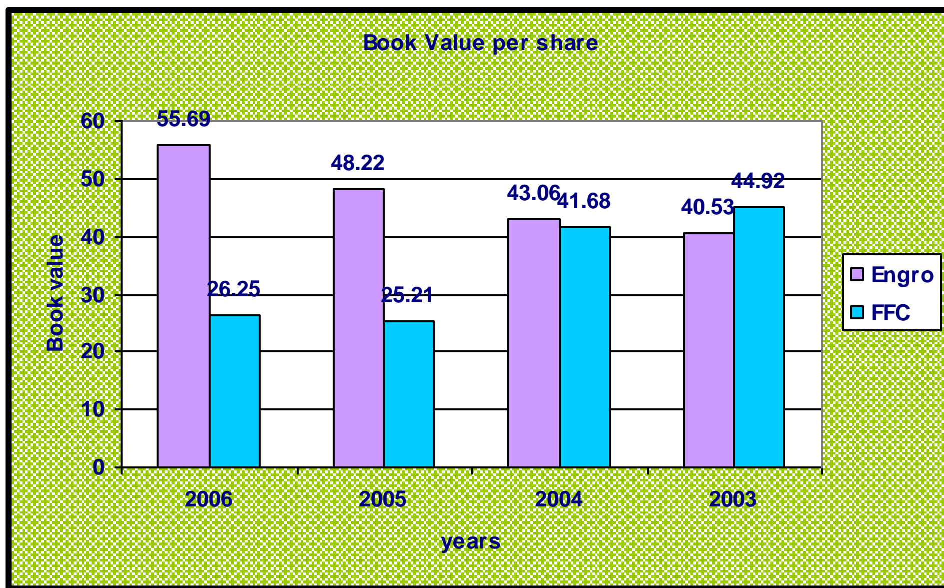

Quick Ratio
Ratio
1.6
1.4
1.2
1
0.8
0.6
0.4
0.2
0
2006
2005
2004
2003
years
Engro
FFC

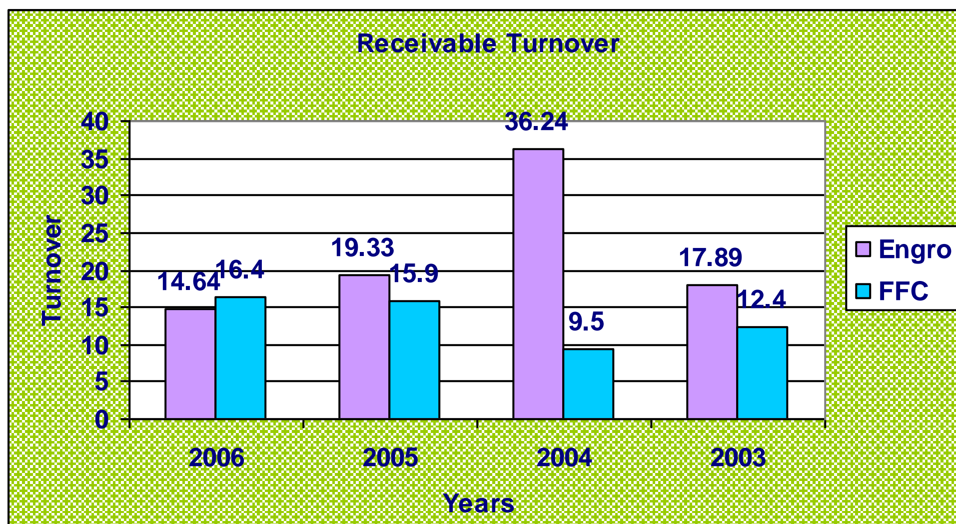


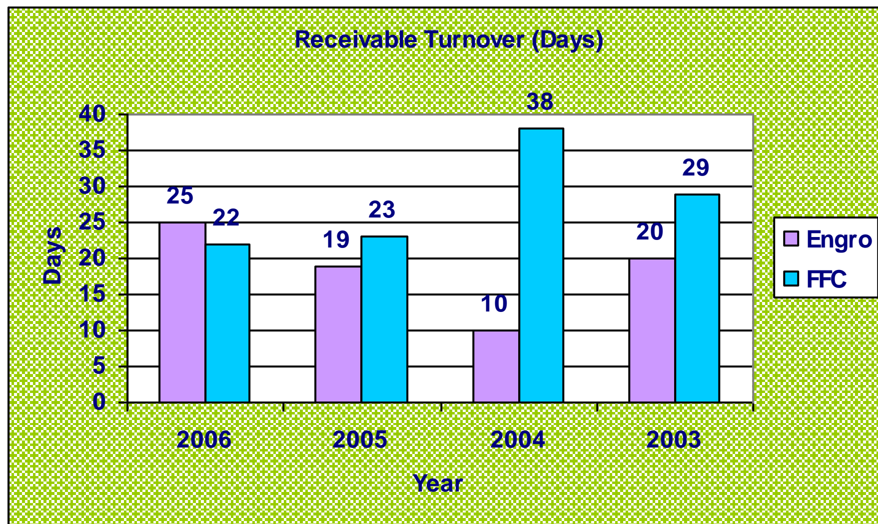
Working Capital
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
-500,000
-1,000,000
-1,500,000
capital (Rs '000)
2006
2005
2004
2003
Years
Engro
FFC



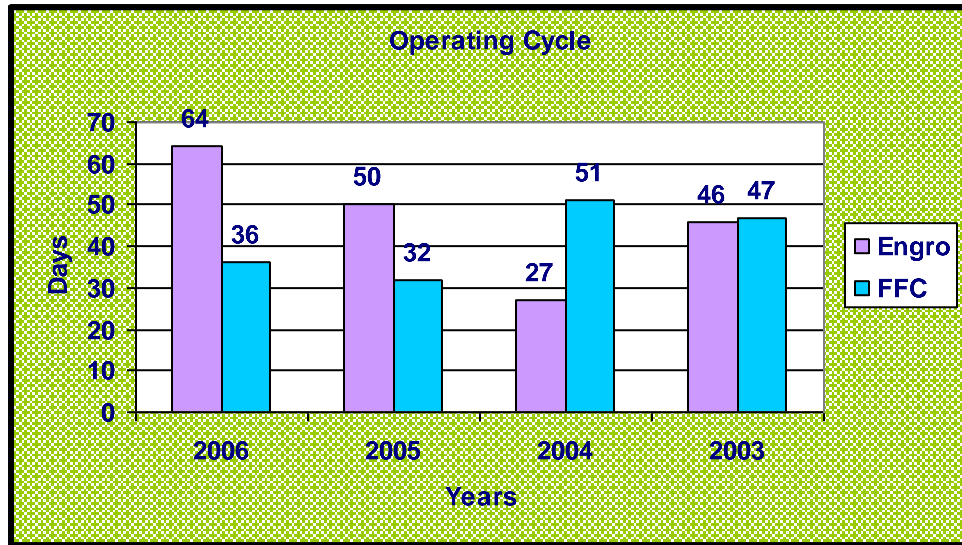
Earning per share (Pre-tax)
25
20
15
10
5
0
Earning per share (Rs)
2006
2005
2004
2003
years
Engro
FFC


Book Value per share
Book value
60
50
40
30
20
10
0
55.69
26.25
48.22
25.21
43.06
41.68
40.53
44.92
2006
2005
2004
2003
years
Engro
FFC


Receivable Turnover
Turnover
40
35
30
25
20
15
10
5
0
14.64
16.4
19.33
15.9
36.24
9.5
17.89
12.4
2006
2005
2004
2003
Years
Engro
FFC



Receivable Turnover (Days)
Days
Year
2006
2005
2004
2003
25
22
19
23
10
38
20
29
Engro
FFC
0
5
10
15
20
25
30
35
40



PRESS

RELEASES

ENGRO

Habib Bank Limited and National Bank of Pakistan have arranged a multi-currency financial facility for the urea expansion project of Engro Chemical Pakistan Limited. Presently, Engro is producing 975,000 metric tons of urea per year and is one of four urea manufacturers in Pakistan who are producing 5.6 million tons of urea in the country.

Fertiliser firms' profits fall by seven percent

RECORDER REPORT

KARACHI (February 02 2007): Fertiliser sector witnessed a depressed financial performance as the profitability of listed companies fell by 7 percent during the calendar year 2006.

Engro's earnings rose by 10 percent to Rs 2.5 billion, on the individual basis the financial charges of Engro rose by 14 percent.

Bulls retain control at KSE

RECORDER REPORT

KARACHI (January 23 2007):

Engro announced its financials in the morning with bottom-line depicting an unprecedented 10 percent growth. The scrip gained Rs 1.10 to close at Rs 180.10 after touching Rs 182.00 intra-day high

COMPANY OPERATING PERFORMANCE

Sales of over 1 million tons of Urea in 2005 has been the highest ever Urea sales recorded in Company's history. This comprised of 890,000 tons of Engro Urea and 111,000 tons of imported Urea. Engro market share for the year in review remained at about 20%. Engro Urea production in 2005 of 912,000 tons, an increase of 5% over 2004, was the best ever production achieved in a turnaround year. Engro's imported phosphate market share for the year was 25% compared to 16% in 2004.

Engro, to post growth in profit

KARACHI: Engro Chemicals are likely to post growth in their net profit when the firms will announce their respective half-year financial results, analysts said.
Engro's board meeting will be held on July 28 (today), while FFC's board meeting is scheduled for July 29 (Thursday).
Analysts said Engro Chemicals is expected to post profit growth of 13-18 percent to Rs 619 million during the first half of current financial year. Khalid Iqbal, an analyst at Investcap Securities, a local brokerage house, said Engro's earning per share (EPS) is

likely to be Rs 4.05 for the first half of current financial year against EPS of Rs 3.49 during the same period last year.
He said the company is also expected to announce an interim cash dividend in the range of Rs 2.5-2.75 per share.
Mr. Iqbal said increase in urea prices and decline in financial charges are likely fuel an improvement of 16 percent in the bottom-line and added Engro currently offers a dividend yield of 8 percent.

"Going forward, we maintain our positive stance on the fertilizer sector owing to the upcoming fertilizer policy and agricultural incentive package announced in the federal budget 2005," he said.

The production at Zarkhez Plant was a record 157,000 tons, an increase of 30% over 121,000 tons achieved last year and 56% above the name plate capacity of 100,000 tons per annum. Zarkhez sales during 2005 were 143,000 tons, 25% higher than last year.

The profit after tax was Rs.2.3 billion which is a new record for the Company and is higher by 44% over the 2004 profit of Rs.1.6 billion mainly due to higher phosphate, Zarkhez & urea volumes & prices, higher dividend income from Engro Vopak, Engro Eximp and the first time dividends from Engro Asahi.

SUBSIDIARIES AND JOINT VENTURES

Engro Vopak Terminal Limited made a record profit after tax Rs.438 million and paid a dividend of 60%. Engro's share of the dividend payout amounts to Rs.270 million. Engro Asahi Polymer and Chemicals Limited (EAPCL), posted an after tax profit of Rs. 305 million and declared its first ever dividend of 15%.

Pakistan Fertilizer Market

The Board of Directors of Engro Chemical Pakistan Limited met on October 20, 2004 to review the business results of third quarter and nine months to September 30, 2004. The salient features of the results are as follows.

The market demand for Urea during the nine months to September 2004 was 3.3 million tons, an increase of 11% over the same period last year. The indigenous production at 3.2 million tons was down 2% from 3.3 million tons achieved last year. The product remained in ample supply throughout the period. The domestic price of urea during the third quarter on average was 51% or a significant RS 466 per 50 kg bag below the cost of imported urea.

The demand for phosphates, increased sharply during the quarter following the Government announcement providing relief to the farmers through the reduction of GUST and withholding tax. The sale for nine months to September 2004 was 0.6 million, up 39% compared to 0.4 million tons for same period in 2003.

Company Operating Performance

The Company's sale of urea during the nine months to September 2004 was 641,000 tons, representing an increase of 8% over last year. The volume increase trailed industry growth rate due to product limitation and restricted Engro market share to 20%, which was the same as in the corresponding period in 2003. Engro urea production during the quarter was an all time record and on a year to date basis was 630,000 tons compared to 706,000 tons achieved in the same period last year. The lower production in 2004 is attributable to plant outage on account of planned annual maintenance turnaround and subsequent operating issues during first half 2004 that have been effectively resolved.
The Company's sale of imported phosphoric fertilizers, DAP and Zorawar increased by 37% to 103,000 tons, while sale of Engro Zarkhez increased by 58% to 79,000 tons compared to 50,000 tons sold during the first nine months last year.
The net profit for nine months to September 2004 is RS 1,006 million, which compares with RS 896 million recorded for the same period last year. The increase in earnings is mainly attributable to higher urea sales, higher urea prices, improved Zarkhez profitability and lower financial charges. This was offset by higher gas prices due to the

expiry of the concessional expansion gas.

Joint Ventures

Engro Vopak Terminal Limited, our 50% joint venture in the bulk chemical terminal business posted an after tax profit of RS 275 million compared to RS 223 million for the first nine months of the last year. The aggregate dividend payout to date is 30% which is the same as last year. Engro's share of dividend amounts to RS 135 million. Engro Asahi Polymer & Chemical Company Ltd., our 50% joint venture in the PVC business posted an after tax profit of RS 258 million for the first nine months compared to RS 25 million for the same period last year on account of improved margins. During the quarter, the company wiped out the accumulated losses brought forward from prior years. Innovative Engineering & Automation Limited, our 51% owned subsidiary paid RS 10 million as Engro's share of dividend, related to 2003 profits.

Dividend

Based on the third quarter results your Board of Directors is pleased to declare a second interim dividend of RS 2.00 per share, which is the same as last year. The total dividend declared to date, including the first interim of RS 2.50 per share amounts to RS 4.50 per share which is also the same as last year.

Fourth Quarter 2004 Outlook

The Company expects Urea industry demand for the quarter to be about 1.5 million tons, which is about the same as last quarter 2003. The Government plan to import 170,000 tons to meet the requirement for the Rabi season will ensure product availability and modest opening inventory for the start of 2005. Urea prices in the international market have continued to surge and at current price the imported urea will cost approximately RS 1,100 versus RS 439 per 50 kg bag for the locally produced product.

The Company urea sales for the fourth quarter are likely to be dampened due to urea product limitation caused by plant operation failures earlier in the year. However, we

expect to maintain our current focus at improving the plant operability to achieve both volume growth and cost efficiencies and minimize the impact of cost pressures.

Engro's full-year 2006 earnings may show flat growth

KARACHI: The profit after taxation of Engro Chemicals Pakistan Limited during the full year is expected to show flat trend in upcoming annual financial results similar to the nine months of the financial year 2006. Analysts pointed out decline in margins behind flat trend in earning growth.

Engro Chemical's board will meet to announce its full year ended Dec 2006 results. Engro would be the first company within leading companies to announce its December ended period results, however the company is expected to post flat earnings growth in 2006.

For the full year 2006, Engro is expected to post earnings of Rs 2.34 billion, diluted earning per share of Rs 13.9 as against Rs 2.32 billion, with diluted earning per share of Rs13.8 last year, depicting a flat trend. During nine-months of 2006, the company posted an earning per share of Rs 8.1, which was the same when compared to nine-months of 2005.

Atif Malik, an analyst at Jahangir Siddiqui Capital Markets Limited said, in 2006, although urea sales numbers by the company are expected to increase. It seems, it is due to the likely decline in NPK sales and lower margins made on the sales of phosphates this year that Engro is expected to depict flat profits growth. In 2005, it was on the back of timely phosphate purchases made by the company that Engro made extraordinary gains on phosphates, in the tune of Rs 555 million.

Engro in nine-months 2006 distributed Rs 6 per share cash dividend while with the full year results, Engro is expected to declare Rs 2 per share 3 per share, thus, totaling Rs 8

per share to Rs 9 per share for 2006. In 2005, Engro paid Rs 11 per share cash dividend with fourth quarter 2005 payout standing at Rs 5 per share. Lower final cash dividend in fourth quarter 2006 is expected keeping in view of Engro's higher cash requirement for the financing its new urea expansion project.

In 11 months, January-November of 2006, Engro's urea sales were recorded at 722,000 tonnes, which were down by 5 percent versus 764,000 tonnes sold previously. For the full year 2006, however, due to robust off-take in December 2006, Engro's total urea sales is expected to stand at 940,000 to 950,000 tonnes, presenting a growth of around 6 percent. Overall fertilizer industry, on the other hand, is expected to depict a nominal 1 percent urea sales growth during 2006. Staff report

FFC

Lt-Gen Mahmood made MD of FFC

By Shaukat Piracha

ISLAMABAD: Lt General (r) Mahmood Ahmad, who was Rawalpindi Corps commander when the Nawaz Sharif government was overthrown in a military coup on October 12, 1999, made his first public appearance here on Wednesday in his capacity as the managing director (MD) of Fauji Fertilizer Company (FFC) Limited and observed that no one had "blessed" him the post of MD except God.

Fertiliser firms' profits fall by 7%

RECORDER REPORT

KARACHI (February 02 2007): Fertiliser sector witnessed a depressed financial performance as the profitability of listed companies fell by 7 percent during the calendar year 2006.

FFC and DAWH were down by 5 percent and 28 percent to Rs 4.6 billion and Rs 2.05 billion respectively, while FFBL remained stagnant with the year-end profit after tax at Rs 2.45 billion.

on the individual basis the financial charges of FFBL, FFC and DAWH rose by59 percent, 59 percent and 115 percent respectively, while the rising cost of fuel raised the selling and distribution expense by 15 percent to Rs 5.88 billion, previously being Rs 5.13 billion.

FFC announces final dividend

RECORDER REPORT

KARACHI (January 27 2007): The Fauji Fertiliser Company Limited (FFC) has announced the final cash dividend at Rs 3.90 per share i.e. 39 percent for the year ending on December 31, 2006. This was recommended by the board of directors of the company in a meeting held on Friday.

In the announcement issued to the Karachi Stock Exchange (KSE) the company said that its profit before taxation stood at Rs 6.985 billion in the year 2006, as compared to Rs 7.214 billion in the year 2005, while profit after taxation was Rs 4.636 billion in the said period against Rs 4.897 billion during previous year, registering earning per share (EPS) at Rs 9.39 in 2006 versus Rs 9.92 in 2005.

The net sales of the company were Rs 29.950 billion in the period under review against Rs 25.481 billion a year earlier. Final dividend if approved by the shareholders will be

paid/issued to the shareholders whose names appear in the register of the members on February 22, 2007. The share transfer books of the company will be closed from February 22, 2007, to February 28, 2007, (both days inclusive).

FFC to establish a new urea plant'

ISLAMABAD—Chief Executive and Managing Director Fauji Fertilizer Company Limited, Lt.Gen (retd) Munir Hafeez said on Monday that the Company plans to set up a new urea plant in the country.

"There are three plants of the company and we want to set another fertilizer plant in the country", he told the media men after inaugurating a two-day international seminar on "Ammonia and Urea Technology" here at a local hotel . He said that the FFC is now earning profit and efforts are being made to further enhance its profitability and productivity.

He said,

"We have traversed this path with a lot of success and today FFC is the largest urea manufacturing and marketing company of Pakistan. Our market share in Pakistan is now above 60 percent".

Decidedly this has been possible by the untiring efforts and dedication of our whole team throughout these years, he said adding, FFC has not only excelled in areas of enhanced productivity but has been among the leaders - in our part of the world - in spheres of safety, workmanship, neat operation of the plants, maintenance, corporate management, and others. He said FFC has earned many accolades and distinctions from national and international organizations in this regard and plants are frequently presented as model plants for the designers and technology licensor for their prospective and regular clients.

Bulls retain control at KSE

RECORDER REPORT

KARACHI (January 23 2007):

FFC also gained Rs 2.00 on expectations of higher FY06 earnings.

Russian Company and FFC plan joint ventures

M RAFIQ GORAYA

ISLAMABAD (November 01 2006): A leading Russian Fertiliser Company, EZOT, and Fauji Fertiliser Company (FFC) plan to set up joint venture to produce urea and DAP fertilizers both for local consumption and export purposes, sources told *Business*

Recorder here on Tuesday.

They said that the visiting Russian delegation, led by Mikhail Golubev, President of EZOT, and FFC management are expected to sign a memorandum of understanding in Rawalpindi this week. EZOT, a major producer and exporter of fertilizers, earns $1 billion annually.

Golubev met with Prime Minister Shaukat Aziz and Minister for Food & Agriculture Sikander Boson here on Tuesday and unfolded his company's plans to start joint ventures with FFC in Pakistan, which is 15 percent deficient in urea and 70 percent in DAP fertilizer to meet its growing requirements of agriculture sector.

FFC to post growth in profit

FFC net to grow as well: Analysts said the FFC is expected to announce profit after tax in the range of Rs 1.43 billion to Rs 1.48 billion or earning per share Rs 5.55 to Rs 5.75 in the first half of current financial year, a growth of 23percent to 27 percent when compared to Rs 1.17 billion (EPS Rs 4.55) earned during the same period last year.

They said net profit in the second quarter (Apr-Jun) is expected to be in the range of Rs 723 to Rs 773 million. They said FFC is likely to announce Rs 2.25 to Rs 2.50 per share second interim dividend.

Analysts said FFC profitability during first half of 2003 lagged due to heavy burden of financial charges related to Pak Saudi takeover debt. But they said during the first half of 2004 FFC's financial charges are likely to be slashed by more than half. "Better urea sales and better urea prices are going to benefit FFC also," said an analyst. Staff report

Corporate Earnings: FFC Jordan logs Rs 19.8m profit

KARACHI: FFC-Jordan has managed to remain in the black while posting a net profit of Rs 19.8 million to Rs 719.8 million during the first half of the current financial year, down five percent compared to a net profit of Rs 763.5 million in the corresponding period last year.

"The result was with in the expected range," said Khalid Iqbal Siddiqui, an analyst at Invest Capital & Securities, a local brokerage house. "The company's results were expected to range between a loss of Rs 50 million and a profit of the same amount."

The biggest support for the company came from the decline in financial charges, which turned the heavy pressure from top line lighter by the end.

The company's sales during the first half, according to the financial results issued Tuesday at the Karachi Stock Exchange (KSE), half slipped 5.09 percent to Rs 1.57 billion as against Rs 1.67 billion during the corresponding period last year, while its cost of goods sold increased 6.5 percent to reach o Rs 1.3 billion compared to Rs 1.22 billion in the first half of the previous financial year. This resulted in a 37.93 percent decline in gross profits. On the other hand administration and general expenses increased 5.9 percent to Rs 34.56 million as against Rs 32.63 million last year.

The operating profit of the company dropped 87.17 percent to Rs 25.06 million compared to Rs 195 million. Also, financial charges declined 91.2 percent to Rs 107.63 million compared to Rs 1.23 billion for the first half of the previous financial year.

Going forward, he said a lot would depend on the coming development of the company's conditions. The restart of its DAP plant next month and the merger proceedings with FFC Jordan lost 90 paisa to close at Rs 17.90 in share trade Tuesday. —Staff Report

Tuesday, April 29, 2003

Staff Report

KARACHI: Fauji Fertilizer Company Limited on Monday announced 30 percent interim dividend despite the 9.3 percent decline in after-tax profits of Rs 608.91 million during

the quarter ended March 31, 2003, compared to the last fiscal year for the same period, according to the financial results issued at the Karachi Stock Exchange (KSE).

"The payout was higher compared to earnings," said Zaheeruddin Khalid, head of research at First Capital & Equities Limited, a local brokerage house. The reasons behind lower earnings were higher costs of sales and higher financial charges.

The company's sales increased 45 percent to Rs 3.99 billion during the quarter ended March 31 compared to Rs 2.74 billion in the corresponding period of the last year. The cost of goods sold increased 73 percent to Rs 2.4 billion compared to Rs 1.4 billion during the same period of the previous year.

Fauji Fertilizer Company gained Rs 1.70 to close at Rs 81.25 in share trade on Monday.

Tuesday, February 01, 2005

FFC full-year net profit rises 27% to Rs 4b

Staff Report

KARACHI: The profit after tax of the Fauji Fertilizer Company Limited (FFCL) has improved by 27 percent to Rs 4 billion during the calendar year 2004 as against Rs 3.14 billion earned during the previous year.

In a statement released to the Karachi Stock Exchange (KSE), the company said its board of directors also approved a final cash dividend of Rs 3 per share and issuance of 15 percent bonus shares.

“The reduction in expenses supported the bottom line growth as sales largely remained at previous year’s level,” said Sajid Bhanji, an analyst at Arif habib Securities.

The company said its sales in 2004 stood at Rs 21 billion but cost of sales declined 4 percent to Rs 13.1 billion.

It said gross profit for the year 2004 increased 7.3 percent to Rs 7.8 billion as against Rs 7.3 percent in 2003.

On the other hand during the period under review distribution cost also declined 4.5 percent to Rs 1.7 billion compared to Rs 1.8 billion last year. In addition, financial cost declined 28 percent to Rs 372 million as against Rs 488 million spent on debt servicing.

The decline in distribution cost, financial cost and a 104 percent increase in other operating income pushed profit before tax to Rs 6.1 billion compared to Rs 4.93 billion last year. FFC’s share rose Rs 2 to Rs 151.20 in the share trade at KSE on Monday.

May 25 - 31, 1996

The fertilizer sector has shown stable and consistent results; with the key players performing extremely well in terms of profitability and being spurred on by racing demand. In 1995 alone demand for fertilizer grew by 11%, higher than the average rate of between 5-6% over the past few years.

Types of fertilizer

Urea, which represents 65% of total fertilizer consumed and di-ammonium phosphate (DAP), which accounts for 18%, are the main types of fertilizer used in Pakistan, but there is a total of eight different fertilizer products which fall into three categories.

Demand

The main market for urea is wheat growers, followed by cotton growers, rice and sugarcane cultivators. Wheat has the highest acreage under cultivation and therefore has the highest demand while sugarcane requires the highest application of fertilizer.

Considering a compound annual growth rate, the demand for urea has grown at a rate of 7.8% and DAP at 10% in the last 10 years. Although urea is produced in Pakistan, demand far exceeds local production capacity and therefore the rest is imported and distributed by the key players. As far as DAP is concerned, the entire demand is met through imports but this will change once Fauji Fertilizer Company-Jordan and Al-Noor fertilizer, both of which we discuss later in this article come on line in the near future.

The most obvious way to increase demand is through increasing the acreage of land under cultivation; if this is not the case, however, the only way to get a higher yield is through a more widespread use of fertilizer; and as discussed earlier this is probably a likely case since fertilizer application is at a very low level.

Supply

It is expected that by 1998, when the FFC-Jordan urea and DAP facility goes on-line at Port Qasim, urea could actually be in surplus.

In 1994 local urea production was 3,140,000 tonnes and in 1995 the same figure was at 3,122,000 tonnes; imports were at 78000 tonnes in 1994 and 162 000 tonnes in 1995. Last.

- Although there are a total of nine fertilizer companies in the country, the public sector accounts for only 28% of the urea market. The National Fertilizer Corporation, which oversees the public sector units sells fertilizer which has been produced locally and imported through the National Fertilizer Marketing Corporation. The main sources of imports are USA, UK, Norway, South Korea, Netherlands, Belgium and Finland and imports of fertilizer from July to April 1996 totaled about $15 million.

- For DAP, the country is completely reliant on imports; the private sector imported 108,000 tonnes in 1994 and 193,000 tonnes in 1995 while the government imported 629,000 tonnes in 1994 and 618,000 tonnes in 1995.

Having established that demand is climbing at quite a pace, it is evident that imports will continue to rise, although a balance is expected in 1998 as the FJFC commercial production begins in the second quarter. DAP imports, too, will continue till the FJFC plant with a production capacity of 446,000 tonnes per annum is ready for commercial

production and the Al-Noor plant with 429,000 tonnes per annum of urea. Imports of DAP are expected to fall by about 50% when FJFC begins commercial production.

Pricing

Although the prices of fertilizer have been deregulated partially since 1986 and completely since 1993, frequent price rises have attracted a lot of attention. Urea, sold in 50 kg bags, was priced at Rs 290 per bag in the last quarter of 1995 and was raised to Rs 305 this year. More recently, amidst some controversy two companies,

- Fauji fertilizer and Dawood Hercules increased urea prices to Rs 330 per bag.
- Engro chemical, a major player, did not increase their prices; probably because they have a lower incidence of fixed charges.

Their expansion cost was lower because they had purchased a second-hand plant and had added surplus ammonia capacity; in fact even further expansion will be cheaper. The minister of food and agriculture, Yusuf Talpur, has expressed his resentment to this increase and is planning to look into the matter the price of fertilizer in the international market has come down from $ 250 per tonne to $ 212 per tonne.

Although it might be asked here why farmers won't simply switch to Engro, the issue is slightly more complex; the industry has rather strong although vaguely defined market segments, with Fauji having more control in Punjab, a larger distribution network country-wide, and being generally less regionalized than the Sindh-based Engro. And furthermore, it is an industry where price differentiation does not normally exist, brand awareness plays a very important role, and a switch from the Fauji "Sona" might not be as easy to accomplish.

Urea currently costs Rs 340 in the black market and Rs 371 for the imported variety. Current DAP prices are at Rs 560 par bag up from Rs 410 end 1994, and they increase in accordance with international prices. Analysts' forecasts for both urea and DAP prices are given below:

Key players

FFC-Jordan Fertilizer Company Limited, FJFC, is sponsored by the Fauji Fertilizer Corporation, the Fauji Group and the Jordan Phosphate Mines Corporation. The sponsors are not only strong backing to FJFC but of considerable operational value as well. Fauji fertilizer is the largest urea manufacturing unit in the country and Jordan, which will have a 10% stake, is the world's third largest exporter of phosphate rock after Morocco and the US.

The $ 370 million project is located at Port Qasim with a capacity to manufacture 1350 tonnes per day of DAP and 1670 tonnes per day of urea. This translates to 446,000 tonnes per annum of DAP and 551,000 tonnes per annum of urea. The plant is expected to commence production in May 1998 and the first dividend is expected at the end of 1999.

FJFC will be the first local producer of DAP because phosphorous, which is the main raw material for DAP is not available in the local market and because the project is highly capital intensive with typical costs at $ 350-$400 per tonne of capacity, and has a long waiting period.
Another major benefit to FJFC will be that the marketing and distribution as well as the technical assistance will come from the already established Fauji fertilizer which has the largest distribution network in the country.

They will also have a 4-year tax exemption, and will pay only a turnover tax at the rate of 0.5%.

A major player, with a 21% share of the urea market (from 8% in 1993), Engro Chemical, following a strong expansion strategy doubled capacity from 278,000 tonnes per annum to 600,000 tonnes per annum in 1994. This expansion cost a total of Rs 3300 million, and was accomplished through the purchase of a second hand urea plant from Chevron, USA and a used ammonia plant from ICI. The result is that Engro has a significantly lower cost of production as much as two-thirds lower than other urea plants. The next expansion in August last year of 150,000 tonnes was done by BMR and capacity is now at 750,000 tonnes per annum. This was a very low cost expansion since they utilized the excess ammonia facility. It is expected that by the end of 1997, production capacity will exceed 1 million tonnes per annum.

They are also in the process of establishing a $ 83 million liquid chemicals jetty and storage tanks terminal at Port Qasim which is due for completion in 1997. This will be 50% owned by Engro and 50% by Pakistan International, Rotterdam, a subsidiary of Royal Pakhoed. A $105 million Poly Vinyl Chloride manufacturing project due for 1999 will also be located at Port Qasim. The 100,000 tonnes per annum project would be a first step towards lucrative the petrochemical market.

A fundamentally strong company, producing at beyond the 100% capacity level, sales revenue in 1995 was at Rs 4520 million depicting a sales growth of almost 27% over the last year, attributable to both higher prices and higher volumes. They sold 694,100 tonnes of "Engro Urea", 24,000 tonnes of imported urea, and 85,200 tonnes of DAP and TSP this last year.

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Fauji Fertilizer, the largest player in the industry with a 43% market share and a capacity of 1,330,000 tonnes per annum, was established by the Fauji Foundation and is located in Goth Machhi, Sindh, near the Mari Gas Field which provides a supply of natural gas to the plant. The initial capacity of the plant was 570,000 tonnes per annum in 1982 which was increased to 695,000 tonnes per annum in 1991 and in 1994, a brand new 635,000 tonnes per annum urea plant was added. Capacity utilization is at 100% but expected to rise to about 105% by 1998.

Fauji has an eight-year tax holiday for added capacity but instead of choosing this exemption, they are charging an accelerated depreciation on additional capacity reducing their current tax bill to zero and preserving cash as well. Fauji normally has very large payouts because they have to finance their sponsor's activities that hold 43% of the shares. EPS was 2.6 in the half year 1995 and is expected to rise to over Rs 10 by 1998.
Prospects

The government is likely to keep input costs low for some time to come because local manufacturers are determined to pass on all such increases to consumers. This will preserve the industry's growth, expansion and move towards self-sufficiency; the entry barriers for new firms have already been discussed.

This sector has offered excellent shareholder returns and demand is still on the rise as manufacturers expand aggressively to accommodate this increase. So it is probably fair to conclude that the industry has sound fundamentals and significant potential for the future.

A particularly bright spot for the sector is the capacity for the export of fertilizer; if investors are worried about over-supply in the next few years, both India and China are the world's largest urea importers, and other markets such as Iran, Bangladesh, Sri Lanka and Thailand are also not too far away.

Fertilizer Sector: The core to the agricultural growth and hence to the economy witnessed a depressed financial performance in the first half of FY07. Cumulative profitability of the listed manufacturers i.e.. FFBL, FFC, DAWH and Engro fell by 21 percent to Rs 6.2 billion from last year's Rs 7.9 billion. The major culprits for the decline in the earnings were higher cost because of rising cost of fuel and surging financial charges because of higher interest rates. This double-digit decline can also be attributed to the extraordinary gains by DAWH in previous half year as it divested some of its stake in SNGP and PTA.

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Your right to know A new voice for a new Pakistan

CONCLUSION

FFC's sustained financial results enable profitability growth and provide for superior shareholder's value. Financial measures of FFC reflect good performance and achievement; showing outstanding productivity, good marketing performance and organized investment plan as compared to ENGRO.

FFC sales volume is 160.1% more than the sales volume of ENGRO. FFC is controlling its cost of goods sold well with respect to its sales as compared to ENGRO. These trends are shown in the respective common size statements.

But the notable thing is that the profit after taxation with respect to sales of FFC is less than that of ENRO, which is showing the inability of FFC to control its operating and administrative expenses.

The fixed assets of FFC are far more than the assets of ENGRO. ENGRO is leading in the ratio of fixed assets with respect to the total assets as compared to FFC. In 2006, ENGRO urea has 41.03% property, plant and equipments with respect to its total assets where as FFC has only 35.03%.The four years ratio is given in the respective common trends. The ratio of current assets with respect to total assets is almost the same of both the companies but FFC is showing downward trend over the past three years but ENGRO is also improving in this section.

Non-current liabilities of FFC are less than non-current liabilities of ENGRO whereas the current portion of liabilities of FFC is more than those of ENGRO. Hence the total liabilities of FFC are greater than those of ENGRO. Moreover the greater liabilities of FFC have made the debt ratio of FFC greater than that of ENGRO showing that FFC's reliance on debt for asset formation is greater than that of ENGRO. Also, the current ratio of FFC is less than that of ENGRO. In 2006, FFC's short-term financial strength is less than that of ENGRO.

Concerning the cash flow of FFC, there is basically an outflow from the operating activities whereas there is cash inflow from operating activities of ENGRO. Therefore resulting in FFC's net cash out flow in 2006 is greater than net cash outflow of ENGRO.

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