REP-110

HABIBMETRO Financial Services

FERTILIZER SECTOR UPDATE

Thursday, May 15, 2025

April Showers Uneven Gains: Urea Down, DAP Inches Up

Urea demand continues to falter, DAP bucks the trend slightly

Fertilizer offtake posted a mixed picture in April 2025, with total nutrient offtake dropping 8.8% y/y to 222kt, led by a steep 23.5% decline in urea sales to 251kt. In contrast, DAP offtake rose marginally by 2.6% y/y to 95kt, supported by improved availability and dealer-level uptake in select regions.

Nitrogen aka urea demand shrank 14.6% y/y to 161kt, while phosphate DAP and potash sales rose 10.1% and 30.9% y/y, respectively. This divergence reflects a shift in buying patterns, where farmers—possibly reacting to crop-specific nutrient needs—moderated urea purchases while staying engaged in phosphatic nutrient application.

Urea Industry Volumetric Position

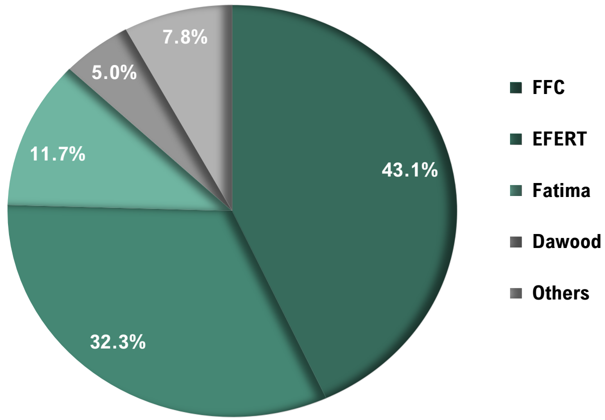
Urea	Apr-25	Apr-24	Y/Y	Mar-25	M/M
Opening Inventory	820	174	371%	536	53%
Production	570	524	9%	590	-3%
Imports	-	-	-	-	-
Off-take	251	328	-23%	307	-18%
Closing inventory	1,104	368	200%	820	35%

Source: NFDC & HMFS Research

Inventory Overhang and Underlying Drivers Behind the Divergence

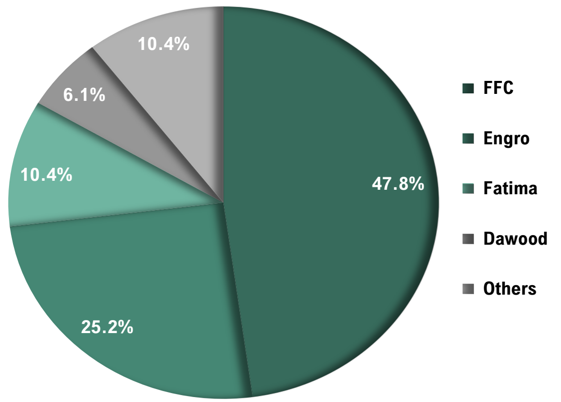
Local production remained robust, with urea and DAP output clocking in at 570kt and 72kt, respectively. Ample carryover stock also weighed on offtake, particularly for urea, with closing inventory swelling to 1.1mnt by April-end. DAP inventory also remained elevated at 204kt, amid improved imports (39kt) and sufficient domestic output. Domestically, urea prices softened slightly in April averaging PKR 4,499/bag (-0.5% m/m), while DAP prices inched up 1.9% m/m to PKR 12,363/bag.

UREA Market Share - April 2025



Source: NFDC, HMFS Research

UREA Market Share - 4MCY25



Source: NFDC, HMFS Research

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- April saw a natural lull in urea demand as Rabi crop application concluded.
- High inventory overhang from previous months (~820kt entering April) likely led to dealer destocking or delayed purchases.
- Farmer liquidity remains constrained, with low wheat prices failing to support fertilizer affordability ahead of Kharif.
- DAP offtake benefited from timely imports (39kt) and stable domestic production (72kt), enabling smoother availability across provinces.
- Some pre-Kharif buying was observed in Punjab (+8% y/y) and Balochistan (+121% y/y), potentially in anticipation of tighter supplies and rising international prices.

Company Scorecard: Offtake, Inventory, and Market Share Insights

Fauji Fertilizer Company Limited

- Retained its leadership in urea with 268kt output and 72kt sales, ending April with a sizable 292kt stockpile.
- Also led DAP sales via FFBL with ~53kt sold, indicating robust distribution reach ahead of Kharif.

	Apr-25	Apr-24	Y/Y	Mar-25	M/M
Off-take (kt)					
Urea	251	328	-24%	307	-18%
DAP	95	93	3%	49	96%
Retail price (PKR/bag)					
Urea	4,499	4,882	-8%	4,520	-0.5%
DAP	12,363	12,174	2%	12,134	2%

Source: NFDC & HMFS Research

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Engro Fertilizers Limited

- Produced 180kt urea but sold only ~54kt, with inventory ballooning to ~487kt—a potential overhang risk if offtake remains sluggish.
- In DAP, EFERT's presence remained firm with ~31kt sold, supported by imported inventory (~63kt available during the month).

Fatima Fertilizer Company Limited

- Sold ~25kt urea, mostly in Punjab and KP, while maintaining a sizable stock buffer (~126kt).
- DAP sales were minor (~1.1kt), reflecting limited footprint in the phosphatic space.

	CY25	CY24	Y/Y
Off take (kt)			
Urea	1,350	6,577	-79%
DAP	184	1,627	-89%
Retail price/bag			
Urea	4,515	4,763	-5%
DAP	12,141	12,419	-2%

Source: NFDC & HMFS Research

Outlook: Seasonal Lift Likely, But Structural Headwinds Persist

The fertilizer sector enters Kharif 2025 with a comfortable supply cushion. Urea availability is estimated at ~4.0mnt, supported by 820kt in opening stock and healthy monthly production, against a projected demand of 3.15mnt. For DAP, availability is estimated at 840kt, broadly in line with expected seasonal consumption of 796kt—though timely import execution and uninterrupted gas supply at the sole domestic DAP plant (FFBL) remain critical to prevent supply gaps.

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That said, demand-side conditions are increasingly complex. Lower-than-expected rainfall has created drought-like conditions in key agricultural belts of Sindh and Punjab, prompting a contraction in wheat cultivation area. This coincides with the government's decision to end wheat support prices and making older grain stock being offloaded at below-market rates, triggering price distortions that have significantly eroded farmer incomes. Consequently, fertilizer affordability—especially for urea and phosphatic nutrients—remains under pressure, despite adequate availability.

On the policy front, the Sindh government's recent announcement to provide subsidies on fertilizer and seeds, as part of a broader four-year support package for small farmers, is a timely intervention. It signals intent to mitigate stress in the farming ecosystem through input cost relief and enhanced farm mechanization, with an emphasis on capacity building around water management and crop planning. While details are still evolving, this may cushion demand volatility in Sindh, where urea offtake saw the sharpest drop in April (-57% y/y).

From a regulatory standpoint, uncertainty looms over the proposed increase in Federal Excise Duty (FED) on fertilizer feedstocks—from 5% to 10%—in the upcoming FY26 budget. While fertilizer manufacturers acknowledge the government's fiscal imperatives and alignment with IMF-led tax reforms, the industry has voiced concern over the pass-through effect on end-user prices, particularly if urea prices climb amid flat or falling crop prices. Any tax-led cost escalation could further impair input uptake and weigh on sector margins if producers are unable to fully pass on the impact.

Adding to the mix is the emerging conversation around potential urea exports. While manufacturers—particularly ENGRO—have indicated national inventories are well above consumption needs (~800–1,000kt), the Ministry for National Food Security has clarified that exports will only be considered after a province-wise assessment of Rabi and Kharif 2025–26 demand.

While early Kharif demand may improve on the back of sowing seasonality and government support schemes, the broader fertilizer market remains vulnerable to policy inconsistency, farmer liquidity constraints, and potential tax shocks. Strategic inventory positioning and pricing discipline will be critical levers of outperformance in the near term—especially for companies with strong dealer networks and diversified portfolios.

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