

Govt likely to cut gas cess by 50pc to benefit fertiliser makers

KARACHI: The government is negotiating with fertiliser manufacturers for the resolution of the Gas Infrastructure Development Cess (GIDC), and may likely reduce it by 50 percent in the upcoming mini-budget, a brokerage house report said on Friday.

Topline Securities in a research report said that last year, the government had waived 50 percent of the outstanding amount of the compressed natural gas (CNG) stations, and it was likely that the same would be approved for the fertiliser sector.

Currently, the GIDC on fertiliser companies was around Rs450 per mmbtu, with Rs300/mmbtu on feed and Rs150/mmbtu on fuel. This translates into a cost of Rs380-Rs400/bag.

All fertiliser manufacturers were accruing GIDC amount on fuel, therefore, government decision to revise down the outstanding amount would likely have a positive impact on the sector.

Fauji Fertilizer Company (FFC) and Fauji Fertilizer Bin Qasim (FFBL) were accruing the cess on full production, whereas Engro Fertilizer was accruing it on only the base plant, which was 35 percent of its total production, according to the Topline Securities research report. "If this development (50 percent reduction in outstanding amount and recurring GIDC rates) materialises, then FFC would benefit the most with one time gain of Rs10.2/share followed by FFBL (Rs5.6), EFERT (Rs3.1/share) and Fatima Fertilizer (Rs0.6/share)," the brokerage said.

However, an analyst said that the recurring benefit depended on the price of urea. It would be too early to comment who would retain the benefit of this development, as the government's motto was to reduce input costs of farmers. Analyst Shankar Talreja of Topline Securities said, "We cannot rule out reduction in urea prices." If the industry retained the benefit of this development at Rs190-200/bag, then FFC's recurring earnings would rise by Rs4.4/share or 30-35 percent of profit after tax, he said. "On the other hand, Engro Fertilizer and FFBL would benefit by Rs1.4/share and Rs2.4/share, respectively in their bottom line."

Further, to release outstanding amount to the government, the fertiliser players would have to reduce their short-term investments (on which they were earning other income) or borrow from the banks. "In either case, there will be some opportunity cost on settlement of GIDC in terms of lower other income or higher finance cost," Talreja added.

Currently, the weighted average GIDC accrual was Rs390/bag for FFC, Rs290/bag for FFBL, and Rs173/bag for Engro Fertilizer. The reduction of cess by 50 percent would have an impact of Rs195/bag on FFC, Rs145/bag on FFBL, and Rs87/bag on Engro Fertilizer. The GIDC was being collected from the consumers of various categories, except residential ones, for more than five years with the sole objective of arranging funds for gas pipeline infrastructure to facilitate utilisation of imported gas, including LNG and that proposed to be imported from Turkmenistan and Iran. The government had given undertakings to the parliament that the GIDC would be used to spread gas pipeline network.

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