RATING REPORT

Fauji Fertilizer Bin Qasim Limited

REPORT DATE:
August 08, 2023

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Initial Rating		Initial Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA	A-1	AA	A-1
Rating Date	*August 08, 2023*		*May 31, 2022*	
Rating Outlook	Stable		Stable	
Rating Action	*Reaffirm*		*Upgrade*	

COMPANY INFORMATION

Commenced Operations in January 2000	**External auditors:** EY Ford Rhodes
Listed Public Limited Company	**Chairman of the Board:** Mr. Waqar Ahmed Malik
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Arif ur Rehman
Fauji Fertilizer Company Limited – **49.88%**	
Fauji Foundation – **18.29%**	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (May 2023)
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

VIS Issue/Issuer Rating Scale
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Fauji Fertilizer Bin Qasim Limited (FFBL)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Headquartered in Islamabad, Pakistan, Fauji Fertilizer Bin Qasim Limited (FFBL) is the pioneering, sole domestic producer of Di-Ammonium Phosphate (DAP) fertilizer.

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The ratings of Fauji Fertilizer Bin Qasim Limited ('FFBL' or 'the Company') incorporate the strong sponsor profile of Fauji Foundation (FF) which is one of biggest and renowned conglomerates of Pakistan with strategically diversified portfolio of companies. The ratings also take into account low business risk profile of the fertilizer sector owing to low-cyclical nature of the industry, increasing significance of food security amidst developing economic situation across the world and consequent enhancement in the strategic importance of the fertilizer sector for the Country. On the other hand, business risk incorporates sensitivity of margins to global phosphoric acid prices, rupee dollar parity and local gas prices. In addition, ratings factor in FFBL's strategic positioning as the only player of Di-Ammonium Phosphate (DAP) in the domestic fertilizer industry.

Financial risk profile of the Company, was effected due to Dip in margins and higher exchange losses resulted in negative bottom line in 1H'23. Consequently, debt coverages have been affected; the same remains a key rating concern for VIS, going forward. The liquidity profile has also come under pressure, however, comfort has been drawn from sizeable cash & short-term investments along with favorable cash conversion cycle, albeit cash holdings continue to decline on a timeline basis.

Further, FFBL's capitalization profile also reported decline in the last two financial years. The gearing indicators have scaled upwards on a timeline owing to significant rise in borrowings on account of carryover inventory from lower offtake in FY22. While margins and profitability have been better in 2Q'23, management is expecting a strong second half which should support in easing off the pressure on gearing and leverage indicators. Going forward, improvement in financial risk profile along with its alignment with the benchmark ranges will be vital for assigned ratings.

Company Profile

Headquartered in Islamabad, Pakistan, FFBL is the pioneering, sole domestic producer of DAP fertilizer. It is also the only producer of granular form Urea (in contrast to widely marketed 'prilled' variant). The plant is located at Port Qasim, Karachi. The majority shareholding is vested with FF and its subsidiary Fauji Fertilizer Company Limited (FFC); the shareholding structure remained unchanged during the rating review period. FFBL is the market leadership in the DAP fertilizers' segment, with market share recorded at 56% (2021: 42%) for 2022. Moreover, the Company is the 4th largest producer of Urea in the domestic market with a share of 8% (2021: 8%) in 2022. Both FFC and FFBL market their products under one umbrella brand 'Sona'. The Company has an installed annual capacity of 650.0m MT of DAP and 551.1m MT of Urea.

Economic Update, Sector Update & Business Risk

Agriculture & its Economic Impact:

Agriculture has always remained essential of our economy and with the support of Government of Pakistan (GoP), local fertilizer industry has ensured timely provision of fertilizers to farmers at affordable prices. While ensuring food security of the country, local fertilizer industry is contributing substantially towards foreign currency reserves with conservation and provision of locally produced fertilizer to farmers at lower prices. Currently, Pakistan is facing sizable pressure on fiscal and current account fronts. During FY22, agriculture sector faced issues of rising prices and climate change which has increased frequency of weather events; the same has directly impacted farm economics. The weaknesses of Pakistan's agriculture sector have now begun to impact on macro-economic level.

Over the years, Pakistan has been spending billions of dollars on imports of cotton, wheat, oil/oil seeds and other agricultural products. With catalyzation of green revolution, agriculture sector has got the potential to provide much needed support to the Government in meeting its economic challenges. By promoting modern agricultural techniques and technologies and by efficient use of available resources, agricultural output can be enhanced significantly that will help in saving billions of dollars for the Country by imports substitution and by creating further avenues of exports. Pakistan's agriculture transformation can reduce annual trade deficit by almost US $48.5b. Per acre yield enhancement of wheat, cotton and oil seed crops can produce an additional revenue of US $14.5b per annum from the existing Agri landscape. Land utilization from millions of acres of uncultivated lands has the potential of generating an additional revenue of around US $34b per annum.

International Fertilizer Market Developments:

The global markets for nitrogen, phosphates and potash were already in a tightened state following strong demand driven by the Covid-19 induced emphasis on food security and a series of supply interruptions and high raw material costs in FY21. Subsequently, the outgoing year was marked by record high prices of fertilizer products, levels which were last recorded around FY08. DAP and MAP prices exceeded USD 1,000 per MT, peaking around April, while their inputs such as Phosphoric Acid, Rock Phosphate, Ammonia, and Sulphur also reached record high values. From April till December 2022, these commodities softened gradually, despite buyers holding back their purchasing in anticipation of sharper drops. Supply restrictions increased further complexity in FY22 starting with the Russia-Ukraine conflict in February; this resulted in Russia offering discounted pricing on fertilizer products. Price of Urea in the international market reached historic highs in 1QFY22, eclipsing previous peaks of FY21 and FY08, backed by strong price of Ammonia feedstock gas during the year, with surges in Urea prices seen in March and then September, thereafter, easing off by around 30% during November and December to within USD 500 per MT by year end. Raw material costs remained reasonably stable primarily due to unavailability of ammonia from the market owing to Russia-Ukraine clash, and ammonia plant shutdowns around Europe due to unfavorable production economics.

Domestic Sector & Business Risk:

Fertilizer sector in Pakistan is oligopolistic in nature with six players operating in the industry. The outgoing year closed with a total fertilizer industry offtake (nitrogen & phosphate) of 9.5 million MT, decreasing by 5.9% in comparison with last year's off-take of 10.1 million MT. This decrease is primarily attributed to the considerable decline in phosphate sales, particularly DAP. DAP off-take stood at 1.20 million MT in the year 2022 which represents 36% decline when compared with 1.87 million MT off-take in FY21. DAP prices were recorded 76% in comparison to preceding year mainly on account of high cost of imported raw materials and the significant devaluation of local currency against US Dollar. The major raw material of DAP is phosphate, which is imported. Fauji Fertilizer Bin Qasim Limited (FFBL) is the only player who produced DAP while the remaining players imported and sold it in the local market. Relative to 36% decline in DAP, NP recorded decline in offtake by 15% in comparison to FY21. Major reasons for the decline were highest ever phosphate prices throughout 1HFY22, unprecedented floods & rainfall and loss of standing crops which significantly impacted farmers economics.

On the other hand, in the local context urea is generically synonymous with fertilizer therefore the demand for the same has remained price inelastic since over a decade. During FY22, urea offtake clocked in at 6.6m MTs, up by 4.3% Y/Y as opposed to 6.34m MT in the previous year. It is pertinent to mention that local fertilizer industry has largely shielded the farmers from international urea price rise as local urea is available to farmers at a discount of around 66%. Further, out of these substantial discounts being enjoyed by local farmers, over 2/3rd of the discount has been provided by the industry while the government contributes 1/3rd in the form of price difference of feed and fuel gas. Given, the overall production was recorded slightly lower than offtake at 6.3m MTs, the gap was filled through imports of around 500k MT urea in the outgoing year. Moreover, FATIMA is the only producer of CAN in the local market. All the available CAN volumes were sold during the year reflecting its high demand in the farming community of the country. CAN and NP's offtake remains volatile and it contingent upon on the market supply.

Table 1: Fertilizer Industry Offtake

Offtake In K MT	2019	2020	2021	2022	1QCY22	1QCY23
Urea	6,228	6,040	6,343	6,616	1,633	1,623
DAP	1,879	2,171	1,881	1,204	248	245
CAN	472	655	908	868	215	163
NP	544	712	845	741	149	196

VIS considers business risk profile of fertilizer sector to be medium to low owing to non-cyclical nature of the sector, food security associated with the fertilizer industry, low risk of substitution and limited dependency on technological enhancements. However, key business risks include sensitivity of margins to gas & phosphate pricing along with rupee depreciation, high taxation and policy rate.

Operational Update

Capacity Utilization

With the increase in gas availability, production levels of both Urea and DAP increased in CY22. Urea production during the year registered an increase of 4% Y/Y while DAP production was up by 7% Y/Y. This also enhanced the utilization levels which have increased to 95% for Urea and 130% for DAP during CY22 (CY21 – Urea: 91%, DAP: 122%). The latest development on gas supply includes inking of gas supply agreement with Sui Southern Gas Company (SSGC) for FFBL's plant up to December 2025. During 1Q23, FFBL did not receive gas for 36 days while the DAP plant was additionally shut down for another 33 days on account of inventory management owing to demand and supply situation in the market. Overall, gas curtailment was 51% of allocation during 1Q23. The same has resulted in decreased production of Urea and DAP which ultimately effected the utilization levels. The numbers are presented in Table 2 below:

Offtake

In CY22, Urea offtake of the Company witnessed a 4% Y/Y growth in line with the increase in industry offtake. Urea market demand kept on increasing throughout the year due to augmented DAP prices compelling higher demand for urea; the same made it tougher for the companies to cater for the amplified demand in wake of pressure created by GOP. Farmers started applying more nitrogenous fertilizers as substitute to DAP due to low affordability, thus urea market remained positive. However, on DAP front, FFBL's offtake registered a drop of 16% Y/Y in CY22 which was lesser than the industry's decline of 38% Y/Y in the same period. The outgoing year presented challenges for phosphatic fertilizers both internationally and domestically. High inflation, production shortages, Russia -Ukraine war led to unprecedented price surge, though correction was expected but it came earlier than expected and that too quiet sharply. Moreover, domestic floods led to delay in sowing of crops. During the year, DAP price in domestic market touched an all-time high of Rs. 14,931/bag with average price clocking in at Rs 10,631/bag as compared to Rs. 6,008/ bag in the preceding year. This made the DAP fertilizer unaffordable for farmers which dented the overall demand during the year. Moreover, FFBL sold DAP's carry-over inventory along with the offtake of 127K Tonnes (1Q22: 114K Tonnes) during 1Q23; the same in aggregate is 2.46x of the production of 52K Tonnes of 1Q23. On the other hand, FFBL offtake for Urea remained almost the same as the production levels during 1Q23. The snapshot of operational metrics is presented in table below:

Table 2: Utilization & Offtake (Tonnes)

	CY20	CY21	CY22	1QCY23
Urea				
Capacity (MTs)	551,000	551,100	551,100	137,775
Production (MTs)	558,932	501,236	523,581	89,312
Utilization (%)	***101%***	***91%***	***95%***	***65%***
DAP				
Capacity (MTs)	650,000	650,000	650,000	162,500
Production (MTs)	739,968	790,415	847,843	51,877
Utilization (%)	***114%***	***122%***	***130%***	***32%***
Sales Offtake (MTs)				
Urea	559,334	501,137	522,561	87,856
DAP	~~893,496~~ 926,273	790,196	660,950	127,460

Long Term Investments

FFBL has a diversified long term (LT) investment portfolio of companies in terms of subsidiaries, associate and joint ventures (JV). However, during the last 3-4 years, the Company has divested from some of its LT investments including Fauji Cement, Fauji Wind Energy I & II and FFBL Foods in FY20, FY21 and FY22 respectively. In the current holdings, Askari Bank is the associated company wherein FFBL holds 21.57% equity stake. In addition, FFBL has a JV investment in Pakistan Maroc Phosphore S.A. Morocco (PMP) with 25% equity. PMP is a JV between FFBL, FF, FFC and Office Cherifien Des Phosphates, Morocco; registered office of PMP is located at Casablanca, Morroco. PMP manufactures and sells phosphoric acid, fertilizer and other related products. FFBL imports its phosphoric acid from PMP in order to manufacture DAP in the local market. The Company investment remained unchanged in associated and subsidiary companies during the rating review period.

On subsidiaries front, FFBL currently has three subsidiaries in different sectors including Fauji Meat Limited (FML), FFBL Power Company Limited (FPCL) and Fauji Foods Limited (FFL). The Company's stake in FML increased to 95.07% (CY21: 90.18%) owing to conversion of long-term loan into equity. Pursuant to the approval in Board, FFBL exercised the option to convert its sub-ordinated loan and related accrued mark-up, amounting to Rs. 7.0b and Rs. 581m, respectively, into ordinary shares of FML, at their face value during CY22. This conversion of sub-ordinated loan and related accrued mark-up is recorded at fair value, i.e. after netting-off of ECL amounting to Rs. 3.5b. FML was incorporated in 2013 with principal objective to establish and operate a meat abattoir unit for Halal slaughtering of animals to obtain meat for local and export sale. FML Commenced operations in 1Q17.

Another subsidiary is FPCL wherein FFBL holds 75% of equity share in the company. FPCL operates a 118MW power plant in Eastern Industrial Zone of Port Qasim, Karachi. FFBL has an agreement with FPCL for purchase of power and steam; the latter commenced commercial production in May 2017.

FFL is also a subsidiary of FFBL with a holding of 51% in the company. FFL (Formerly High Noon Pakistan Limited), a listed company was acquired by FF and FFBL in 2015. Since then, FFBL has the management control of FFL. FFL is engaged in process and sale of toned milk, milked powder, fruit juices, allied dairy and food products. FFBL performed an impairment test on its investment in FFL during 2022 and book an additional impairment of Rs. 1.2b taking total impairment on the investment to Rs. 2.0b at end-CY22. Ultimately, the investment amount of FFBL in FFL scaled down to Rs. 11.3b (CY21: Rs. 12.5b) at end-CY22. As a part of turnaround strategy, FFL has successfully completed its financial restructuring and paid off its loans amounting to around Rs.8.0b consequent to other than right equity injection by Fauji Group worth Rs. 9.4b during 1Q23. Furthermore, the value of LT investment portfolio remained unchanged during the ongoing year

Table 3: Long Term Investments

PKR (Mn.)	Dec'21	Dec'22	Mar'23
- **Associate Companies**			
o Askari Bank Limited	5,231	5,231	5,231
- **JV**			
o PMP	1,411	1,411	1,411
- **Subsidiary Companies**			
o Fauji Meat Limited (net of impairment of Rs. 6.9b)	-	4,032	4,032
o FFBL Foods Limited	-	-	-
o FFBL Power Company Limited	6,441	6,441	6,441
o Fauji Foods Limited (net of impairment of Rs. 1,999mn)	12,527	11,348	11,348
Long Term Investments	**25,610**	**29,171**	**29,171**

Key Rating Drivers

Rating incorporates strong sponsor profile

The FF is a diversified conglomerate with strategic stakes in various sectors. Its involvement in multiple industries, such as fertilizer, cement, food, power generation, gas exploration, LPG marketing and distribution, financial services, and security services, can provide several advantages to the sponsored entities. Given rating considers the strength of FF positively. The diversified portfolio of FF also enhances its ability to provide support and resources to its sponsored companies.

Profitability – Dip in gross margins, heavy exchange losses drag profitability

Drop in margins resulted a decline in FY22:
The topline witnessed highest ever growth of 44% and was recorded at Rs. 159.2b (CY21: Rs. 110.4b) primarily in line with uptick in DAP sales to Rs. 139.3b (CY21: Rs. 95.7b) owing to increase in prices during CY22. The higher DAP prices were in turn an outcome of rising international prices due to Russia-Ukraine war, high input cost due to inflation, rupee depreciation and change in taxation regimes. DAP remained the major revenue driver with 87% (CY21: 85%) during CY22 while the remaining is represented by Urea. FFBL's gross margins remained volatile historically mainly due to rupee dollar parity and gas availability. Moreover, the consistent hike in Phosphoric acid and energy prices, rupee depreciation and GST inclusion in the cost of production dented FFBL's gross margins to 16.2% (CY21: 20.1%) during the outgoing year.

On the flip side, administrative expenses were rationalized by 16% Y/Y to Rs. 1.3b (CY21: Rs. 1.6b) in CY22 despite increase in operating scale as the management implied strict cost controls; the major decline was manifested in employee related expenses. However, distribution expenses scaled up by 32% Y/Y to Rs. 7.1b (CY21: Rs. 5.6b) in CY22 amid significant jump in fuel prices during the year. Furthermore, other operating expenses of the Company displayed an abnormal growth of 2.05x Y/Y to Rs. 7.7b (CY21: Rs. 2.5b) in CY22 owing to massive exchange loss of Rs. 6.8b (CY21: 1.5b) incurred on account of currency crises resulting in delay of foreign payments and rupee depreciation against dollar during the year. FFBL earns healthy other income, mainly comprising of dividend income from LT investments; the same reflects positively in the bottom line. However, other income was recorded lower at Rs. 6.3b (FY21: Rs. 9.1b) during CY22 owing to one-time capital gain of Rs. 2.8b booked in CY21 on sale of equity investments in FWE I & II. The major portion of other income accounting for 40% pertained to dividend income in the outgoing year while the remaining included income from subsidiaries, profit on bank deposits, cash dividend on mutual funds and scrap sales in CY22. Going forward, management expects to stabilize dividend income from its investments in the ongoing year.

For GIDC liability, the Supreme Court of Pakistan (SCP) has issued its judgement, as per which the Company is required to make payment of outstanding GIDC in 48 equal monthly installments. Accordingly, FFBL has recognized the liability at its level-3 fair value of Rs. 19.6b resulting in a remeasurement gain of Rs. 3.3b being the difference between previously recognized provision and fair value of restructured liability calculated by applying discount rate ranging between 7.19% to 8.93%, recognized in statement of profit or loss. Subsequently, FFBL booked unwinding cost on GIDC payable amounting to Rs. 891.2m (CY21: Rs. 1.2b) during the outgoing year. The fair value of liability is recorded at Rs. 21.7b (CY21: 20.8b) at end-CY22. The Company had previously obtained stay from the Honorable Sindh High Court (SHC) against payment of GIDC, on September 22, 2020. Management has determined, based on advice of the legal advisor, that this stay remains valid till its disposal by HSHC; which is pending adjudication. Accordingly, the Company has not recognized any late payment surcharge in respect of non-payment of GIDC. Moreover, there has been no significant progress in this regard during the rating review period.

Moreover, Expected Credit Loss (ECL) allowance registered as recorded significantly lower at Rs. 241.9m (CY21: 4.2b) in CY22 including Rs.140.0m booked on subsidy receivable from the Government while the remaining included allowance booked on accrued interest on FML and other common services. Further, FFBL determined recoverable amount of FFL, based on a value-in-use calculation, which was lower than the carrying amount of the investment in the Company's financial statements (CY21: higher than the carrying amount of the investment), accordingly further impairment amounting to Rs. 1.2b (CY21: Rs. 2.1b) was booked on account of aforementioned impairment test performed. Consequently, despite positive momentum witnessed in revenues, the Company posted lower Profit before Tax (PBT) of Rs. 8.5b (CY21: 11.5b) owing to slash in margins coupled with increase in financial and other expenses borne in CY22. In addition, the increase in taxation represents imposition of Super Tax on profits for the current year as well as on last year which has resulted in higher effective tax rate of 73% (CY21: 45%), thus further effecting the bottom line. Ultimately, Profit after Tax (PAT) scaled down to Rs. 2.3b in CY22 compared to Rs. 6.4b earned in the preceding year.

Bottomline turned from green to red during 1Q23:
The positive trajectory of revenue continued during the ongoing year with FFBL posting revenue of Rs 31.5b (1QCY22: Rs 24.8b) during 1QCY23. However, the non-availability of gas for 36 days on account of winter load management along with 33 days of additional downtime due to inventory management in 1Q23 resulted in reduced efficiency and lower fixed cost rationalization; the same ultimately impacted the gross profit and gross margins of the Company. Moreover, the trimming of margins was also an outcome of continuation of 5%-18% GST on locally produced DAP, exemption of GST on imported DAP sales tax becoming cost of production and high turnaround costs. Further, due to massive rupee devaluation causing sizable

exchange loss of Rs. 4.6b (1Q22: Rs. 0.6b) along with significant jump in finance cost to Rs. 2.5b (CY21: Rs. 565.5m) owing to highest ever policy rate recorded impacted the overall profitability metrics. Consequently, FFBL posted a Loss before Tax of Rs. 5.1b and Loss after Tax of Rs. 5.4b in 1Q23 as opposed to PBT and PAT of Rs 2.5b and Rs. 1.6b respectively in the corresponding period last year.

Liquidity – Weak liquidity & coverages; the same need to be rescued to remove pressure on ratings

FFO declined during the outgoing year on account of shrinkage of margins and increase in taxation expense. The FFO further turned negative during the ongoing year; the same largely mimics the trend of margins and profitability indicators. In addition, apart from reduction in FFO, the decline in cash coverages to outstanding obligations during CY22 was also an outcome of increase in utilization of borrowings. Nevertheless, despite a downward trend seen, FFO to Total Debt and FFO to Long-term Debt were adequate at end-CY22; however, due to FFO turning negative, the same have come under pressure. Similarly, Debt Service Coverage Ratio (DSCR) was reported higher than 1x at end-Dec'22 which is fair from the rating perspective; however, it has now fallen in negative territory owing to adverse trend in FFO in 1Q23. Moreover, current ratio has slightly scaled down below 1.0x on a timeline at end-1Q23 owing to decline in inventory and trade receivables; nevertheless, as per the management, reprofiling of short-term debt into long-term debt is on the cards in order to rebound current ratio to higher than 1x. VIS has been given to understand, that debt re-profiling from short term to long term is a routine exercise carried out for the core reason to maintain current ratio at comfortable levels above 1x. FFBL manages liquidity risk by maintaining sufficient cash and liquid investments on its balance sheet; VIS draws comfort that FFBL possesses cash and short-term investments worth Rs. 20.5b (Dec'22: Rs. 36.4b, Dec'21: Rs. 46.6b) as at end-Mar'23. Short term investments include units of different mutual funds. Coverage of short-term borrowings by stock in trade and receivables registered downward trend on a timeline by end-1Q23; the same is expected to revert back to historical levels once the reprofiling of short-term borrowings is carried out. The liquidity of the Company is also impacted due to tax refunds amounting to Rs. 16.8 (end-CY22: Rs. 16.8m; end-CY21: Rs. 12.5m) due from government at end-1QFY23; the company is unable to rectify the situation given it is an exogenous factor and inherent in the local fertilizer industry. On the other hand, FFBL continues to enjoy negative cash conversion cycle indicating that the suppliers are financing the working capital requirements; the same has been positively in-built in the assigned ratings.

Table 4: Liquidity and Cashflow Indicators

	CY21	CY22	1QCY23
Cash Conversion Cycle (Days)	(158)	(50)	(37)
- **Receivable Days (Days)**	0	27	15
- **Inventory Days (Days)**	35	107	81
- **Payable Days (Days)**	193	185	133
Current ratio (x)	1.09	1.06	0.98
Inventory+Receivables/ST Borrowings (x)	0.77	1.81	1.06
FFO (Rs. in m.)	9,973	8,883	(1,872)
FFO/Debt (x)	0.31	0.17	NA*
FFO/Long Term Debt (x)	0.48	0.37	NA*
DSCR (x)	1.37	1.32	NA*

**NA is not applicable as FFO is negative in 1Q23 which will result in meaningless negative coverage ratios*

Capitalization – Debt levels displayed notable hike in CY22

With the absence of dividend payouts in the last two financial years (CY20 and CY21) and strong profitability reported during CY21, FFBL's equity base augmented to Rs. 22.7b at end-Dec'22 as opposed to Rs. 20.4b in the preceding year. Historically, even in the last 5 years the equity position exhibited volatility parallel to the trend in profitability indicators; the same in turn has largely been a factor of business risk environment of the fertilizer sector and overall economic indicators. Given FFBL incurred sizable net loss during 1Q23, the equity declined to Rs. 17.3b at end-Mar'23. The recouping of equity base to pre-upgrade level is imperative for ratings going forward. On the borrowing front, FFBL repaid its existing long-term debt of Rs. 4.7b with the procurement of new financing facility worth Rs. 7.5b; therefore, the long-term debt with a net increase of around Rs. 2.8b was recorded higher at Rs. 23.7b (end-Dec'21: 20.9b) at end-Dec'22. Moreover, short-term debt registered a sharp increase to Rs. 28.2b at end-CY22 as opposed to Rs. 11.0b in the preceding year owing to increase in working capital requirements in line with enhancement in scale of operations. The total debt largely remained unchanged at Rs. 51.8b (Dec'22: 51.9b; FY21: 31.9b) at end-1Q23. Subsequently, on account of increase in utilization of borrowings coupled with reduction in equity base, the gearing and leverage indicators trended upwards on a timeline by end-1Q23. The overall capital structure of the Company has significantly tilted towards debt with a ratio of 75: 25 as at Mar'23. Given the absence of any major capex plan in the pipeline, the management does not aim to procure any incremental long-term funding during the rating horizon. However, reducing short term debt through efficient working capital management to achieve optimal capitalization indicators and alleviate pressure on bottom-line due to high finance cost will remain important from the ratings perspective.

Fauji Fertilizer Bin Qasim Limited (FFBL) Appendix I

Financial Summary					*(Amount in Million)*
BALANCE SHEET	**Dec'19**	**Dec'20**	**Dec'21**	**Dec'22**	**Mar'23**
Property, Plant & Equipment	10,428	11,252	10,575	9,953	9,900
Long-term Investments	26,180	24,546	25,610	29,171	29,171
Long-term Loans	3,130	6,990	3,231	-	-
Stock in Trade	14,756	2,862	8,388	39,236	25,837
Trade Debts	8,607	1,656	94	11,828	5,072
Advances	923	773	577	431	1,043
Other Receivables	6,005	5,170	4,613	3,430	7,308
ST Invesments	1,009	-	10,442	13,764	4,381
Cash & Bank Balances	5,294	25,048	36,130	22,705	16,156
Other Assets	14,835	12,670	15,550	19,343	19,322
Total Assets	**91,167**	**90,968**	**115,210**	**149,863**	**118,191**
Trade and Other Payables	34,993	21,638	46,786	67,412	42,562
Short Term Borrowings	28,227	15,822	10,988	28,213	29,165
Long-Term Borrowings	18,358	22,242	20,925	23,733	22,648
Deferred Liabilities	1,579	14,530	9,462	4,492	3,169
Other Liabilities	1,175	2,777	6,618	3,290	3,353
Total Liabilities	**84,333**	**77,009**	**94,779**	**127,140**	**100,898**
Paid Up Capital	9,341	9,341	12,913	12,913	12,913
Equity	6,834	**13,959**	**20,431**	**22,722**	**17,293**
INCOME STATEMENT	**CY19**	**CY20**	**CY21**	**CY22**	**1QCY23**
Net Sales	66,839	83,234	110,452	159,226	31,523
Gross Profit	5,885	12,579	22,152	25,869	2,244
Operating Profit	1,331	10,678	21,474	15,962	(2,439)
Profit Before Tax	(3,868)	4,893	11,525	8,506	(5,089)
Profit After Tax	(5,920)	2,192	6,391	2,328	(5,429)
FFO	(4,594)	2,290	9,973	8,883	(1,872)
RATIO ANALYSIS	**CY19**	**CY20**	**CY21**	**CY22**	**1QCY23**
Gross Margin (%)	8.8%	15.1%	20.1%	16.2%	7.1%
Net Margin (%)	-8.9%	2.6%	5.8%	1.5%	-17.2%
FFO to Long-Term Debt	-0.25	0.10	0.48	0.37	NA
FFO to Total Debt	-0.10	0.06	0.31	0.17	NA
Debt Servicing Coverage Ratio (x)	0.01	0.80	1.37	1.32	NA
ROAA (%)*	-6.9%	2.4%	6.2%	1.8%	-16.2%
ROAE (%)*	-57.1%	21.1%	37.2%	10.8%	-108.5%
Gearing (x)	6.82	2.73	1.56	2.29	3.00
Debt Leverage (x)	12.34	5.52	4.64	5.60	5.83
Current Ratio	0.74	1.02	1.09	1.06	0.98
Inventory+Receivables/ST Borrowings	0.83	0.29	0.77	1.81	1.06

REGULATORY DISCLOSURES	Appendix IV
Name of Rated Entity	Fauji Fertilizer Bin Qasim Limited (FFBL)
Sector	Fertilizer
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	
Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Due Diligence Meetings Conducted	

Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
08-8-2023	AA	A-1	Stable	Reaffirm
31-5-2022	AA	A-1	Stable	Upgrade
16-3-2021	AA-	A-1	Stable	Upgrade
27-8-2019	A+	A-1	Stable	Initial

Due Diligence Meetings Conducted:

Name	Designation	Date
Aamir Qureshi	Head of Treasury	July 13, 2023
Farrukh Nouman	Assistant Manager Treasury	July 13, 2023