

RATING REPORT

Fauji Fertilizer Bin Qasim Limited (FFBL)

REPORT DATE:May 06th, 2024**RATING ANALYSTS:**

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| RATING DETAILS | | | | |
|-----------------|---------------|------------|-----------------|------------|
| Rating Category | Latest Rating | | Previous Rating | |
| | Long-term | Short-term | Long-term | Short-term |
| Entity | AA+ | A-1+ | AA | A-1 |
| Rating Date | May 06, 2024 | | August 08, 2023 | |
| Rating Outlook | Stable | | Stable | |
| Rating Action | Upgrade | | Reaffirmed | |

COMPANY INFORMATION

| | |
|---|--|
| Commenced Operations in 2000 | External Auditors: M/s EY Ford Rhodes |
| Listed Public Limited Company | Chairman of the Board: Lt. General Anwer Ali Hyder HI (M) (Retd) |
| 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 RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

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

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (May 2023)

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

Fauji Fertilizer Bin Qasim Limited

OVERVIEW OF
THE
INSTITUTION

RATING RATIONALE

Fauji Fertilizer Bin Qasim Limited

(FFBL) is a public limited Company incorporated in Pakistan under the Companies Ordinance, 1984 (now replaced by the Companies Act, 2017 ("the Act") with effect from May 31, 2017). The shares of the Company are quoted on Pakistan Stock Exchange (PSX). The registered office of the Company is situated at FFBL Tower, Jinnah Boulevard, DHA Phase II, Islamabad, Pakistan. The principal objective of the Company is manufacturing, purchasing and marketing of fertilizers. The Company commenced its commercial production effective January 1, 2000.

Corporate Profile

Fauji Fertilizer Bin Qasim Limited ("FFBL" or "the Company") is a public listed Company incorporated in Pakistan under the Companies Ordinance, 1984 (now replaced by the Companies Act, 2017 ("the Act") with effect from May 31, 2017). The shares of the Company are quoted on Pakistan Stock Exchange (PSX). The registered office of the Company is situated at FFBL Tower, Jinnah Boulevard, DHA Phase II, Islamabad, Pakistan. The principal business of the Company is manufacturing, purchasing and marketing of fertilizers. The production facilities are located at Port Qasim, Karachi. The Company commenced its commercial operations effective January 1, 2000.

Business Segments

Di-Ammonium Phosphate (DAP): DAP is a highly concentrated phosphate fertilizer that provides essential nutrients, phosphorus (P) and nitrogen (N), crucial for plant growth. The Company operates in this segment with the brand SONA DAP that caters to both agricultural and industrial needs. FFBL holds the distinction of being the sole producer of DAP in Pakistan, emphasizing its unique position in the market.

Urea: Urea is a highly concentrated straight nitrogenous fertilizer, containing 46% nitrogen in ammonia cal form, which is vital for the synthesis of proteins in plants. FFBL markets this product under the brand name SONA Urea Granular, which is utilized in both industrial and agricultural applications.

The FFBL plant is flexible and can vary production of DAP and urea as per market requirement.

Key Rating Drivers**Sponsor support provides comfort to ratings**

Ratings derive comfort from the sponsor support extended to the Company. The Fauji Foundation (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.

Sole producer of DAP in Pakistan

Ratings factors in FFBL's strategic positioning as the sole producer of DAP in the domestic fertilizer market. The company boasts an annual production capacity of 650,000 tones, consistently exceeding utilization due to robust local demand that surpasses imports.

Medium to low business risk profile characterized by low cyclical, moderate to low competition, low technology risk, and medium energy sensitivity

VIS considers business risk profile of fertilizer sector to be medium to low owing to non-cyclical nature of the sector, increasing significance of food security amidst developing economic situation across the world, low risk of substitution, consequent enhancement in the strategic importance of the fertilizer sector of the Country, 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.

Fertilizer sector in Pakistan is oligopolistic in nature with six players dominating the industry. The industry comprises of companies producing UREA while FFBL being the only player, which produce, DAP while the remaining players import and sold it in the local market.

The fertilizer sector of Pakistan is expected to continue to grow in the coming years. This is due to the increasing demand for food production in Pakistan and beyond. The sector is also expected to become more efficient, which will lead to further growth and improvements in the competitiveness of the sector. Factors like increasing demand for food, government support, and investment in research and development (R&D) further drives the growth of the country's fertilizer sector.

Profitability growth on account of favorable DAP prices

The Company generate revenue predominantly from two segments: Urea and DAP. The revenue composition shifted slightly with Urea accounting for 10.5% (CY22:13.3%) of total sales, and DAP contributing 89.5 (CY22: 86.7%). In CY23, FFBL experienced a substantial 21.3% increase in its topline, primarily driven by a notable escalation in DAP prices. This boost in revenue has positively impacted the gross margin, which rose to 17.1 % (CY22: 16.2%) in CY23.

Despite facing a significant surge in finance costs which escalated by 71.6% in CY23, the net margin improved at 2.3% (CY22: 1.5%), a trickledown effect of revenue growth.

Coverage profile on an improving trajectory on account of higher profitability

In CY23, the Company demonstrated a marginal improvement in its debt service coverage ratio (DSCR), which is reported at 1.37x (CY22: 1.32x). This enhancement in the DSCR is attributable to a 9.4% increase in funds flow from operations (FFO), primarily driven by improvement in profitability.

Significant improvement in capitalization profile due to reduction in debt

In CY23, FFBL markedly enhanced its capital structure, as evidenced by a substantial improvement in both gearing and leverage ratios, which improved to 1.2x (CY22: 2.3x) and 4.4x (CY22: 5.6x), respectively. This notable improvement in capitalization metrics primarily stems from the company's effective debt reduction by approximate PKR 11 bln. Looking ahead, FFBL is expected to further strengthen its capital structure, supported by ongoing and planned debt repayments in 2024.

Current ratio remains unchanged while STD coverage weakened

Historically, the Company has maintained an adequate liquidity profile with a current ratio ranging between 0.7x and 1.1x. In CY23, the liquidity profile remained unchanged with a current ratio of 1.1x (CY22: 1.1x, CY21: 1.1x). The short-term debt (STD) coverage weakened at 1.1x (CY22: 1.8x) in CY23, due to steep reduction in inventories and trade debt without proportional decrease in short-term borrowings.

Fauji Fertilizer Bin Qasim Limited
Appendix I

| Financial Summary | | PKR Mlns | | |
|-------------------------------------|--|-----------------|----------------|----------------|
| <u>BALANCE SHEET</u> | | Dec'21 | Dec'22 | Dec'23 |
| Property, Plant & Equipment | | 10,575 | 9,732 | 9,616 |
| Stock in Trade | | 8,388 | 39,236 | 13,787 |
| Trade Debts | | 94 | 11,828 | 379 |
| Advances | | 577 | 431 | 941 |
| Other Receivables | | 4,613 | 3,430 | 8,444 |
| ST Investments | | 10,442 | 13,764 | 33,686 |
| Cash & Bank Balances | | 36,130 | 22,705 | 39,964 |
| Total Assets | | 115,210 | 149,863 | 145,872 |
| Trade and Other Payables | | 46,786 | 67,412 | 55,384 |
| Short Term Borrowings | | 10,988 | 28,213 | 13,385 |
| Long-Term Borrowings | | 20,925 | 23,733 | 18,458 |
| Deferred Liabilities | | 9,462 | 4,492 | 2,241 |
| Total Liabilities | | 94,779 | 127,140 | 118,780 |
| Paid Up Capital | | 12,913 | 12,913 | 12,913 |
| Equity | | 20,431 | 22,722 | 27,091 |
| <u>INCOME STATEMENT</u> | | CY21 | CY22 | CY23 |
| Net Sales | | 110,452 | 159,226 | 193,064 |
| Gross Profit | | 22,152 | 25,869 | 33,110 |
| Operating Profit | | 21,474 | 15,962 | 23,472 |
| Profit Before Tax | | 11,525 | 8,506 | 14,146 |
| Profit After Tax | | 6,391 | 2,328 | 4,404 |
| FFO | | 9,973 | 8,883 | 9,717 |
| <u>RATIO ANALYSIS</u> | | CY21 | CY22 | CY23 |
| Gross Margin (%) | | 20.1% | 16.2% | 17.1% |
| Net Margin (%) | | 5.8% | 1.5% | 2.3% |
| FFO to Long-Term Debt | | 0.48 | 0.37 | 0.53 |
| FFO to Total Debt | | 0.31 | 0.17 | 0.31 |
| Debt Servicing Coverage Ratio (x) | | 1.37 | 1.32 | 1.37 |
| ROAA (%)* | | 6.2% | 1.8% | 3.0% |
| ROAE (%)* | | 37.2% | 10.8% | 16.3% |
| Gearing (x) | | 1.56 | 2.29 | 1.18 |
| Debt Leverage (x) | | 4.64 | 5.60 | 4.38 |
| Current Ratio | | 1.09 | 1.06 | 1.07 |
| Inventory+Receivables/ST Borrowings | | 0.77 | 1.81 | 1.06 |

| REGULATORY DISCLOSURES | | | | Appendix II | |
|---|---|------------------------------|-------------------|-----------------------|----------------------|
| Name of Rated Entity | Fauji Fertilizers Bin Qasim Limited | | | | |
| Sector | Fertilizers | | | | |
| Type of Relationship | Solicited | | | | |
| Purpose of Rating | Entity Ratings | | | | |
| Rating History | Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
| | RATING TYPE: ENTITY | | | | |
| | 06-5-2024 | AA+ | A-1+ | Stable | Upgrade |
| | 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 |
| 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 | Name | Designation | | Date | |
| | Mr. Aamir Qureshi | Head Of Treasury | | March 28, 2024 | |
| | Mr. Farrukh Nouman | Assistant Manager - Treasury | | | |