RATING REPORT

Fatima Fertilizer Company Limited

REPORT DATE:
January 8, 2016

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	*January 7, 2016*		*April 16, 2014*	
Rating Outlook	Stable		Stable	
Outlook Date	*January 7, 2016*		*April 16, 2014*	

COMPANY INFORMATION

Incorporated in 2003	**External auditors:** M. Yousuf Adil Saleem & Company, Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Arif Habib
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Fawad Ahmed Mukhtar
Arif Habib Corporation Limited – 16.2%	
Fatima Holding Limited – 12.8%	
Reliance Commodities (Private) Limited – 10.0%	
Mr. Muhammad Arif Habib – 8.8%	
Ms. Zetun Arif – 6.6%	
Mr. Faisal Ahmed Mukhtar – 6.3%	
General Public – 10.8%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: *Industrial Corporates (October 2003)*
http://www.jcrvis.com.pk/images/IndustrialCorp.pdf

Fatima Fertilizer Company Limited

OVERVIEW OF THE INSTITUTION

Fatima was incorporated in 2003 as a public company under the Companies Ordinance, 1984. Primary activities of the company include manufacturing and selling of fertilizers and chemicals. Fatima is listed on all three stock exchanges of Pakistan. It has a manufacturing facility in Sadiqabad operating with a production capacity of 500,000 MT for Urea, 420,000 MT for CAN and 360,000 MT for NP.

RATING RATIONALE

The ratings take into account low business risk profile of Fatima emanating primarily from stable supply of major raw material (gas feedstock) along with lower feedstock prices leading to relatively higher margins. The company has also witnessed continuous improvement in coverage on account of declining debt levels and improving cash flows. The ratings also take into account Fatima's association with renowned and well established business groups of the country with a strong likelihood of support.

The company maintains its business mix constituting three fertilizer products; Urea, Calcium Ammonium Nitrate (CAN) and Nitro Phosphate (NP). In a gas deficit country, Fatima enjoys a dedicated gas allocation of 110 mmcfd from Mari Gas Field at concessionary rates. Capacity utilization of the plants stood higher at 92.3%. In tandem with streamlining of its processes, the company was able to enhance capacity of its plants, during FY14.

In line with the growth strategy, the company plans to invest in Midwest Fertilizer Company LLC (MFC), a nitrogen fertilizer plant in the eastern US Corn Belt. The fertilizer complex, having production capacity of 2,400,000 mtpa, is projected to cost US$2.4b. The project has been planned to be financed through 35:65 equity to debt ratio. To finance its equity investment of 35% in MFC, Fatima is in the process of issuance of foreign currency bond of up to US $300m in the US debt market. Construction of the project is expected to commence in FY16. Recently, Fatima also acquired 100% stake in Fatimafert Limited, formerly known as DH Fertilizers Limited.

Following the partial repayments of long term loans, leverage indicators of the company have improved during FY14 and in the ongoing year. Debt profile of Fatima comprises a mix of short and long-term debt, with the former acquired on a need basis for working capital requirements. The company had outstanding debt of Rs. 28.8b, at end-9M15. FFO to total debt improved to 0.46x (FY14: 0.61x, FY13: 0.37x) on the back of lower debt levels and higher cash flows. At current debt levels, debt servicing coverage is expected to remain comfortable. Going forward, leverage indicators are expected to trend upwards primarily on account of procurement of debt for investment in MFC. The bond will have a tenor of 7 years with semi-annual coupon payments and a bullet payment of principal at maturity. The company is forecasting major repayment of local debt about five years prior to the bullet payment. Fatima's internal cash flow generation ability may support repayment or refinancing of entire debt by that time. The project is expected to become operational by early 2020. Further support is anticipated from additional cash flows in terms of dividend income from MFC. As a backup arrangement, the management is considering other options as well.

Net sales of the company amounted to Rs. 36.2b (FY13: Rs. 33.5b) with margins of the company improving to 59.3% (FY13: 58.9%) in FY14. Management anticipates lower margins in the coming years on account of implementation of Gas Infrastructure Development Cess (GIDC). The company is also in the process of revamping and de-bottlenecking its ammonia plant; the project is divided into two phases. First phase of the project is expected to be completed soon while initiation of the second phase is subject to demand. Sales amounted to Rs. 21.8b with a gross margin of 61.2% during 9M15 vis-à-vis sales target of Rs. 37.3b for FY15.

Fatima Fertilizer Company Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	DEC 31, 2014	DEC 31, 2013	DEC 31, 2012
Fixed Assets	68,823.2	67,588.0	65,882.9
Investments	85.8	85.2	85.2
Stock-in-Trade	2,681.2	2,702.1	2,507.9
Trade Debts	448.3	99.2	138.5
Cash & Bank Balances	948.8	238.3	984.1
Total Assets	83,121.0	80,071.7	76,004.8
Trade and Other Payables	7,373.9	6,650.7	4,996.7
Long Term Debt *(*incl. current maturity)*	23,710.3	28,585.5	31,109.1
Short Term Debt	599.6	2,302.5	2,690.3
Total Equity	36,757.0	32,759.0	28,947.9

INCOME STATEMENT	DEC 31, 2014	DEC 31, 2013	DEC 31, 2012
Net Sales	36,169.2	33,495.9	29,518.6
Gross Profit	21,460.8	19,711.2	17,266.2
Operating Profit	17,291.6	16,194.6	14,787.3
Profit After Tax	9,257.8	8,022.2	6,111.1

RATIO ANALYSIS	DEC 31, 2014	DEC 31, 2013	DEC 31, 2012
Gross Margin (%)	59.3	58.9	58.5
Net Working Capital	(439.1)	(2,929.2)	(3,942.8)
FFO to Total Debt (x)	0.61	0.37	0.28
FFO to Long Term Debt (x)	0.62	0.40	0.31
Debt Servicing Coverage Ratio (x)	1.91	1.73	0.85
ROAA (%)	11.4	10.3	8.0
ROAE (%)	26.6	26.0	21.4

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	Fatima Fertilizer Company Limited
Sector	Fertilizer
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	
Instrument Structure	N/A
Statement by the Rating Team	JCR-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.
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Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
1/7/2016	AA-	A-1	Stable	Reaffirmed
4/16/2014	AA-	A-1	Stable	Initial