RATING REPORT

Fatima Fertilizer Company Limited (FFCL)

REPORT DATE:
January 17, 2017

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	*Dec 21,2016*		*Jan 07, 2016*	
Rating Outlook	*Stable*		*Stable*	
Outlook Date	*Dec 21,2016*		*Jan 07, 2016*	

COMPANY INFORMATION

Incorporated in 2003	**External auditors:** Deloitte Yousuf Adil 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 – 15.2%	
Fatima Holding Limited – 12.8%	
Reliance Commodities (Private) Limited – 9.95%	
Mr. Arif Habib – 7.6%	
Mr. Faisal Ahmed Mukhtar – 6.3%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporates (May 2016)*
http://www.jcrvis.com.pk

Fatima Fertilizer Company Limited (FFCL)

OVERVIEW OF THE INSTITUTION

FFCL 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. The company has a manufacturing facility in Sadiqabad operating with a production capacity of 500,000MT for Urea, 420,000MT for CAN and 360,000MT for NP.

Profile of Chairman

Mr. Arif Habib is a veteran businessman and is the CEO of Arif Habib Corporation Limited, director of Pakarab Energy Limited and Chairman of PFL, Aisha Steel Mills Limited and Javedan Corporation Limited.

Profile of CEO

Mr. Fawad Ahmed Mukhtar carries over 30 years of experience in manufacturing and industrial management sector. He is the chairman of Reliance Weaving Mills Limited, Fatima Energy Limited, Reliance Commodities (Private) Limited, Fatima Sugar Mills Limited, Fatima Holding Limited, Air One (Private) Limited and is also the CEO of PFL.

Financial Snapshot

Net Equity: 9M16 – Rs. 50.0b, Dec15 – Rs. 40.2b, Net Profit: 9M16 – Rs. 22.9b, Dec15 – Rs. 29.7b

RATING RATIONALE

The ratings assigned to Fatima Fertilizer Company Limited (FFCL) takes into account FFCL's prominent market share in the fertilizer industry and its association with an established and renowned conglomerate. The ratings also draw comfort from the stable availability of raw material at concessional tariff leading to strong product margins, ongoing operational efficiencies, presence of a seasoned management team which has instituted a sound internal controls infrastructure. Issuance of a long term sukuk has extended the repayment tenor of the long term debt while also offering lower finance cost. The company's investment plans in Midwest fertilizer is expected to increase gearing related indicators in the medium term.

Profitability

In November 2015, the company completed the phase-1 of the Ammonia De-bottlenecking project aimed at improving production efficiencies. Despite drop in volumetric sales, the company largely maintained its bottom line during FY15 on account of sustained margins, lower finance cost and reduced corporate tax. While sales performance remained weak during first half of the ongoing year, volumetric sales picked up pace in the third quarter owing to lower product prices following the implementation of Farmer Incentives Plan. Lower product prices reflected in reduced margins, however margins continue to remain healthy. Going forward, sales volumes are expected to improve on account of lower product prices.

Cash flows and Liquidity

Cash outlays include acquisition of FFL (formerly DH Fertilizers Limited) amounting to Rs. 2.02b and Rs. 5.5b for Ammonia Revamp and de-bottlenecking project. Loans extended to associated companies represented 3.4% of the asset base. With reduced profit before tax, Funds from Operations (FFO) was reported lower at Rs. 11.6b (FY14: Rs.14.8b) during FY15; the same amounted to Rs. 8.5b during 9M16. FFO to total debt declined to 0.31x (FY15: 0.39x; FY14: 0.61) for 9M16 as a result of increase in total borrowings. At current debt levels, cashflows are considered adequate to timely repay debts repayments falling due in the coming year.

Capitalization and Funding

FFCL has recently re-profiled its long-tern syndicated facility by issuing a Sukuk of Rs. 10.5b for a period of five years; proceeds from Sukuk were used to fully prepay the senior syndicated facility. Leverage indicators exhibited marginal increase in line with higher borrowings; however the impact of the same was mitigated on account of strong capitalization and positive momentum in earnings.

Investment in Midwest Fertilizer

FFCL plans to invest in a US based fertilizer company, Midwest Fertilizer Company (MFC), in the eastern US Corn Belt. The venture is planned to be financed through 65:35 debt to equity ratio. FFCL will hold investment stake of 51% in the project while the remaining 49% will be held by other/institutional investors including US based investors. The construction of the project was expected to start in FY16; however the same has been delayed till 2Q17. The plant is expected to begin commercial operations during FY21. To finance its equity portion of the project estimated at Rs. 30b, FFCL plans to issue a foreign currency bond in the US debt market. FFCL internal cash flow generation may support repayment while 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.

Fatima Fertilizer Company Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	SEP 30, 2016	DEC 31, 2015	DEC 31, 2014
Fixed Assets	73,753	73,435	68,823
Investments	2,106	2,106	85.8
Stock-in-Trade	7,085	7,003	2,681.2
Trade Debts	502	335	448.3
Cash & Bank Balances	385	295	948.8
Total Assets	102,772	94,789	83,121.0
Trade and Other Payables	8,640	8,646	7,373.9
Long Term Debt *(*incl. current maturity)*	19,911	20,000	23,710.3
Short Term Debt	11,334	10,229	599.6
Total Equity	49,974	40,229	36,757.0
INCOME STATEMENT	**SEP 30, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Net Sales	22,908	29,733	36,169.2
Gross Profit	11,966	17,122	21,460.8
Operating Profit	7,555	11,548	17,291.6
Profit After Tax	6,370	9,254	9,257.8
RATIO ANALYSIS	**SEP 30, 2016**	**DEC 31, 2015**	**DEC 31, 2014**
Gross Margin (%)	52.2	57.6	59.3
Net Working Capital	(5,430)	(6,719)	(439.1)
FFO to Total Debt (x)	0.31	0.39	0.61
FFO to Long Term Debt (x)	0.57	0.58	0.62
Debt Servicing Coverage Ratio (x)	1.03	1.60	1.91
ROAA (%)	6.4	10.4	11.4
ROAE (%)	15.1	24.0	26.6

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	see table below
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.
Probability of Default	JCR-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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
12/21/2016	AA-	A-1	Stable	Reaffirm
1/07/2016	AA-	A-1	Stable	Reaffirm
4/16/2014	AA-	A-1	Stable	Initial