RATING REPORT

Fatima Fertilizer Company Limited (FATIMA)

REPORT DATE:
December 01, 2021

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating Long-term	Latest Rating Short-term	Previous Rating Long-term	Previous Rating Short-term
Entity	AA	A-1	AA-	A-1
Rating Outlook	*Stable*		*Stable*	
Rating Date	*December 01, '21*		*October 15, '20*	

COMPANY INFORMATION

Incorporated in 2003	**External auditors:** Deloitte Yousuf Adil Saleem & Co. Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Arif Habib **Chief Executive Officer:** Mr. Fawad Ahmed Mukhtar
Key Shareholders (with stake 5% or more):	
Arif Habib Corporation Limited – 15.2%	
Mr. Muhammad Arif Habib – 8.6%	
Fatima Trade Company – 7.6%	
Fatima Management Company – 7.6%	
Mr. Faisal Ahmed Mukhtar – 6.3%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria *Industrial Corporate (August 2021)*
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Fatima Fertilizer Company Limited (FATIMA)

OVERVIEW OF THE INSTITUTION

Fatima Fertilizer Company Limited (FATIMA) was established in 2003 as a public limited company. The company also acquired Dawood Hercules Plant and later named it FatimaFert. The plants are located at Sadiqabad and Sheikhupura road having production capacities of Urea 945,500 M.T, CAN 420,000 M.T and NP 360,000 M.T.

Profile of Chairman

Mr. Arif Habib is the chairman with a diversified experience. He is the CEO of Arif Habib Corporation Limited. He is the chairman of Pakarab Fertilizers Limited (Pakarab), Aisha Steel Mills Limited, Javedan Corporation Limited and director of Pakarab Energy Limited.

Profile of CEO

Mr. Fawad Ahmed Mukhtar is the CEO and director of the company. He has broad experience in manufacturing and industrial management. He is also the Chairman of Reliance Weaving Mills Limited, Fatima Energy Limited, Reliance Commodities Private Limited, Fatima Sugar Mills Limited and CEO of Fatima Cement Limited as well.

RATING RATIONALE

Fatima Fertilizer Company Limited (FATIMA) is engaged in the business of manufacturing, producing, buying, selling, importing and exporting fertilizers and chemicals. In Jan'19, Fatima's subsidiary, Fatimafert Limited, has been amalgamated in Fatima. During CY20, Fatima acquired production plants of Pak-Arab fertilizers as approved by shareholders. The company has 3 manufacturing facilities, which are listed as follows:

- **Sadiqabad Plant:** Fully integrated production facility at Sadiqabad which mainly produces Calcium Ammonium Nitrate (CAN), Nitro Phosphate (NP) and intermediary products (Ammonia & Nitric Aicd). The Complex has a dedicated gas allocation of 110 MMCFD from Mari Gas Field and has 56 MW captive power plants.
- **Sheikhupura:** The Sheikhupura plant is based on RLNG, and has a Urea manufacturing capability of 445,000 MTs annually.
- **Pakarab Plant:** This plant has a nameplate capacity of 854,500 MTs (Urea: 100,000 MTs, NP: 304,500 MTs & CAN: 450,000 MTs). The production plants have been acquired by FATIMA. Previously the plant has a history of remaining non-operational, as a result of non-availability of gas. However, the management has signed a Gas Supply Agreement (GSA) with Mari, valid for 7 years.

Subsequent to the latest acquisition, the company's annual nameplate capacity has increased to 2.57m MTs and FATIMA is now the biggest player in the market in terms of total capacity

Industry Update

- Urea offtake clocked in at 6m Metric Tons (MT) in CY20 down by 3% while 1H'CY21 offtake was up 9%. Over the years, the demand for Urea has depicted price inelasticity, albeit volumetric growth in offtake has remained limited.
- The second most used fertilizer is Diammonium Phosphate (DAP), for which offtake was up 15% YoY during CY20. The increase in DAP demand during CY20 was mainly owing to decline in its prices. Volumetric offtake of DAP in 1H'CY21 remained stable as compared to corresponding period last year. With the increasing price trend in DAP, making it unaffordable for small farmers, DAP demand is likely to remain weak.
- The other 2 major products are Calcium Ammonium Nitrate (CAN) and Nitro Phosphate (NP). NP's demand has been posting strong growth, given lower pricing relative to DAP. CAN offtake remains volatile depending on the supply in market.

Table 1: Fertilizer Industry Offtake (In k.T)

	CY18	CY19	CY20	1H'CY20	1H'CY21
Urea	5,812	6,228	6,040	2,672	2,899
DAP	2,237	1,879	655	598	489
CAN	609	472	712	292	354
NP	453	544	2,171	280	601

- Due to discontinuation of Gas Infrastructure Development Cess (GIDC) on Feed Gas and decline of GIDC cess from 150/mmbtu to 50/mmbtu on Fuel Gas, fertilizer prices in the economy had dropped in 1H'CY20. However, prices gradually started to rise in the latter half of CY20, a trend that continues to date. Going forward, fertilizer prices are expected to increase further on the back of rising inflation, gas prices and rupee depreciation.

- Key business risk factors for industry includes sensitivity of margins to gas & phosphate pricing and rupee depreciation.

FATIMA Market Positioning

Table 2: Market Share (Fatima)

	CY19	CY20	1HCY21
Urea	12.5%	12.5%	10.9%
DAP	5.7%	6.4%	1.0%
CAN	100%	74.8%	81.1%
NP	87.9%	62.4%	82.3%

- The company is now the sole producer of CAN in Pakistani market after the acquisition of production plants of Pak Arab. FATIMA also enjoys a dominant market positioning in NP market.
- FATIMA can be termed as mid-sized player in the Urea market. Urea's market share of the company is expected to stay intact on yearly basis as the nationwide supply and demand of urea almost remains same.
- In case of DAP, FATIMA's off take is composed of imported DAP for reselling in the domestic market.
- Inclusive of additional capacity from Pakarab plant, which has recently been acquired, the Company's name plate capacity has increased to 2.57m MT/year, making it the largest player in the fertilizer industry in terms of capacity under one company.

Production & Offtake

Table 3: Capacity Utilization

	CY19	CY20	1H'CY21
Urea			
Capacity (MTs)	945,500	1,037,900	518,950
Production (MTs)	822,656	680,980	410,591
Capacity Utilization	87%	66%	79%
CAN			
Capacity (MTs)	420,000	870,000	435,000
Production (MTs)	403,444	577,974	306,690
Capacity Utilization	96%	66%	71%
NP			
Capacity (MTs)	360,000	664,500	332,250
Production (MTs)	407,511	637,406	333,163
Capacity Utilization	113%	96%	100%

- Urea capacity utilization decreased to 66% mainly owing to increase in capacity after adding Pak Arab plant while the production has witnessed a drop due to unavailability of gas at Sheikhupura plant. In 1H'CY21, the production at Sheikhupura plant remained halted due to unavailability of gas.
- Subsequent to Jun'21, gas supply to Sheikhupura Plant has been restored. This will help the company to increase urea capacity utilization.
- In CY20, the company's DAP offtake increased to 137,874 MT's, up by 29%, along with an industry offtake increase of 15% in CY20. In 1H'CY21, DAP offtake has significantly declined owing to high volatility in international prices during the period.
- The company is focusing on production and sales of NP as it features relatively higher margins than other products. The effective prices of FATIMA's NP witnessed an increase of 22% during 1H'CY21.

Key Rating Rationale

Diversified Sales Mix with minimal business risk due to non-cyclical nature of industry

Table 4: Sales & Margins

As % of Sales	CY19	CY20	9M'CY21
Sales (In PKR' Millions)	74,964	71,267	76,770
Product-wise Breakup			
- Urea	36%	34%	NA
- CAN	20%	20%	NA
- NP	34%	33%	NA
- DAP	10%	13%	NA
- Others	1%	1%	NA
Gross Margin	37.2%	40.4%	43.6%
Operating Margin	28.0%	31.2%	31.6%
Net Margin	16.1%	18.6%	18.4%

- The business risk profile of FATIMA is characterized by non-cyclical nature of industry along with a well-diversified product portfolio in the fertilizer business relative to peers.
- FATIMA is now the biggest player in the market in terms of total capacity of 2.57m MTs under one roof followed by EFERT and FFC with 2.27m MTs and 2.0m MTs capacity, respectively.
- The company's topline decreased by 5% in CY20 on account of decline in fertilizer prices in the market during 1H'CY20 as a result of GIDC abolition by GoP.
- In 9M'CY21, topline posted a notable increase of 65%, given increase in capacity as a result of adding Pakarab Plant.
- We foresee the full year sales of CY21 to display a significant jump of ~90% followed by steady growth over the medium to long term.
- FATIMA's gross margins historically remained volatile due to changes in sales mix and gas availability at the Sheikhupura plant. Gross Margins clocked in at 40% and 44% in CY20 and 1H'CY21 (CY19: 37%).
- The gross margins are expected to fall in the range of 30-35% in CY21, as the Gas Sales Agreement (GSA) for subsidized feed gas at $0.70/mmbtu for FATIMA's main plant has ended effective 2nd half of CY21.
- Given the volumetric growth in offtake and expected margins, FATIMA's gross profit is projected to remain on the higher side, translating in a business risk profile superior to peers.

Table 5: Volumetric Offtake (In MTs)

	CY19	CY20	1HCY21
Urea	777,526	754,429	315,033
CAN	471,828	489,751	396,459
NP	477,992	444,469	291,522
DAP	106,702	137,874	5,957
Others	14,377	14,875	203,712
	1,848,425	1,841,398	1,212,683

Sound cash flow coverage indicators while the working capital cycle remained negative albeit showing some improvement

Table 5: Liquidity & Cash flow Indicators (All figures in PKR' Millions, unless stated otherwise)

	CY19	CY20	9MCY21
Cash Conversion Cycle (Days)	(81)	(57)	(73)
- Receivable Days (Days)	35	23	48
- Inventory Days (Days)	89	116	91
- Payable Days (Days)	205	197	213
FFO	13,587	14,841	24,411
FFO – Debt	46%	65%	233%*
FFO – Long Term Debt	102%	131%	326%*
DSCR (x)	1.55	1.76	4.01*

* Annualized

- In tandem with the strong growth in offtake revenues, cash flow coverage indicators posted notably improvement during the period under review.
- We have noted a sizable uptick in stock of trade debts and inventory; the increase is in line with the growth in business volume. In addition, we have reviewed the aging of trade debts, which is indicative of sound credit risk profile.
- With the improvement in FFO in 1H'CY21, annualized DSCR of the company increased to 4.0x for CY21, which is comfortably high.

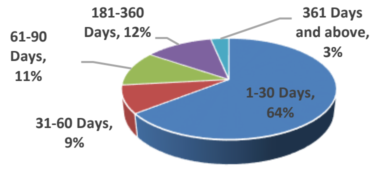

Figure 1: Ageing of Trade Debts

Capitalization Buffers continue to be reinforced

Table 6: Capitalization (All figures in PKR' Millions, unless stated otherwise)

	Dec'19	Dec'20	Sep'21
Net Equity	**78,008**	**87,103**	**95,944**
- Paid-up Capital	21,000	21,000	21,000
- Reserves	57,008	66,103	74,944
Debt	**29,594**	**22,743**	**13,915**
- Long Term	13,329	11,299	9,965
- Short Term	16,265	11,444	3,950
Gearing (x)	0.38	0.26	0.15
Leverage (x)	0.99	0.81	0.81
Dividend Payout Ratio	35%	40%	-

- Overall equity of the company grew at a CAGR of 10% during the last 4.75 years (Jan'17- Sep'21) on the back of strong profitability and retention. Overall size of the equity, in absolute terms, comfortably complies with the benchmark for the assigned rating.
- The company's long term debt has been on a declining trend and the management has no plans to mobilize any major long term debt over the foreseeable period.
- Resultantly, gearing of the company declined during the period under review, as illustrated in table 7.
- The company's capital structure is 13:87 (Debt:Equity) as at Sep'21. With the absence of any major CAPEX during the rating horizon, capital structure is expected to remain conservative during the rating horizon.

Fatima Fertilizer Company Limited (FATIMA) Annexure I

Financial Summary					*(Amount in Millions)*
BALANCE SHEET	-	**Dec'18**	**Dec'19**	**Dec'20**	**Sep'21**
Property, Plant & Equipment		91,719	100,721	104,938	104,643
Long-term Investments		146	175	202	854
Long-term Loan to Associated Company		1,999	2,999	2,999	2,499
Stock in Trade		6,100	11,518	13,531	14,433
Trade Debts		2,565	7,207	4,450	13,540
Short-term Loan to Associated Company		3,242	3,242	3,242	7,000
Cash & Bank Balances		717	515	556	374
Total Assets		128,208	155,116	157,557	173,924
Trade and Other Payables		18,069	26,484	22,871	33,641
Short Term Borrowings		5,495	16,265	11,444	3,950
Long-Term Borrowings *(Inc. current matur)*		16,008	13,329	11,299	9,965
Deferred Liabilities		18,609	19,943	24,177	23,432
Total Liabilities		58,613	77,108	70,454	77,980
Issued, Subs, and Paid Up Capital		21,000	21,000	21,000	21,000
Tier-1 & Total Equity		69,595	78,008	87,103	95,944
INCOME STATEMENT	**CY18**	**CY19**	**CY20**	**1HCY20**	**1HCY21**
Net Sales	51,310	74,964	71,267	24,833	76,770
Gross Profit	25,671	27,899	28,795	15,185	33,508
Operating Profit	18,613	20,954	22,212	12,242	24,267
Profit Before Tax	16,790	17,193	18,743	10,057	22,491
Profit After Tax	11,914	12,070	13,275	7,161	8,400
FFO	17,364	13,587	14,841	8,019	14,092
RATIO ANALYSIS		**CY18**	**CY19**	**CY20**	**9MCY21**
Gross Margin (%)		50.0%	37.2%	40.4%	43.6%
Net Margin (%)		23.2%	16.1%	18.6%	18.4%
FFO to Long-Term Debt		1.08	1.02	1.31	3.26*
FFO to Total Debt		0.81	0.46	0.65	2.33*
Debt Servicing Coverage Ratio (x)		2.15	1.55	1.76	4.01*
ROAA (%)		9.7%	8.5%	8.5%	11.3%*
ROAE (%)		17.6%	15.5%	15.2%	20.5%*
Gearing (x)		0.31	0.38	0.26	0.15
Debt Leverage (x)		0.84	0.99	0.81	0.81
Current Ratio		0.89	0.88	1.03	1.26
Inventory + Receivables/Short-term Borrowings		1.58	1.15	1.57	7.08
**Annualized*					

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure III

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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	Annexure IV
Name of Rated Entity	**Fatima Fertilizer Company Limited**
Sector	Fertilizer
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
12/01/2021	AA	A-1	Stable	Upgrade
10/15/2020	AA-	A-1	Stable	Reaffirmed
08/26/2019	AA-	A-1	Stable	Reaffirmed
12/22/2017	AA-	A-1	Stable	Reaffirmed
12/21/2016	AA-	A-1	Stable	Reaffirmed
1/7/2016	AA-	A-1	Stable	Reaffirmed
4/16/2014	AA-	A-1	Stable	Initial

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. Omer Yousaf	Manager Treasury	October 14, 2021
Mr. Kashif Mustafa	Financial Controller	