RATING REPORT

Fatima Fertilizer Company Limited (FATIMA)

REPORT DATE:
May 31, 2022

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	AA+	A-1+	AA	A-1
Rating Outlook	*Stable*		*Stable*	
Rating Date	*May 31, 2022*		*December 01, '21*	
Rating Action	*Upgrade*		*Upgrade*	

COMPANY INFORMATION	
Incorporated in 2003	**External auditors:** Yousuf Adil 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 – 8.9%	
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 Pakarab 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), Urea 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

Offtake In K MT	2018	2019	2020	2021
Urea	5,812	6,228	6,040	6,343
DAP	2,237	1,879	2,171	1,881
CAN	609	472	655	908
Others	535	663	825	967
Total	**9,193**	**9,242**	**9,691**	**10,099**

- Fertilizer sector in Pakistan encompasses an oligopolistic structure with six players operating in the industry. Annual fertilizer off-take reported a growth of 4% in 2021 to 10.1m MT (2020: 9.7m MT).
- Urea continues to dominate the fertilizer sales mix contributing around 63% in the total industry off-takes, followed by DAP which contributed around 19% in the fertilizer sales mix.
- For urea, 2021 culminated with a shortage of inventory as a result of middlemen speculating exorbitant prices due to sizeable difference between local and international urea prices. The ECC has also approved import of 50k MT and 200k MT of urea in Jan'22 and May'22, which will help in managing

the shortfall for this season.
- 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.
- Key demand drivers for the industry include crop output, government policies, weather conditions and soil health.
- Key business risk factors for industry includes sensitivity of margins to gas & phosphate pricing and rupee depreciation.

FATIMA Market Positioning

As % of Sales	CY19	CY20	CY21
Sales (In PKR' Millions)	74,964	71,267	112,488
Product-wise Breakup			
- Urea	36%	34%	23%
- CAN	20%	20%	19%
- NP	34%	33%	54%
- DAP	10%	13%	3%
- Others	1%	1%	1%
Gross Margin	37.2%	40.4%	38.3%
Operating Margin	28.0%	31.2%	26.8%
Net Margin	16.1%	18.6%	16.4%

- 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 nameplate 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 is now the sole producer of CAN in Pakistani market after the acquisition of production plants of Pakarab. 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.

Key Rating Rationale

Upward revision in ratings is underpinned by growing importance of food security amidst developing economic situation across the world and consequent enhancement in strategic importance of the fertilizer sector for the Country. Ratings take into account FATIMA's market positioning in the fertilizer industry, wherein with the addition of the Pakarab Plants has increased the Company's nameplate capacity to 2.57m MTs, making FATIMA the biggest player in the segment. During the period under review, FATIMA achieved strong uptick in offtake, as production from recently acquired Pakarab plants was added to the mix. FATIMA's gross margins have remained intact so far, albeit given the expiry of GSA for subsidized feed gas, gross margins slightly reduced in the outgoing year. Nevertheless, the expected volumetric growth in offtake and its impact on gross profit has been incorporated in the rating action as an important rating driver.

In tandem with the strong growth in revenues, cash flow coverage indicators posted notable improvement during the period under review. Uptick in stock of trade debts and inventory is in line with the growth in business volume and provide sufficient coverage of outstanding short-term obligations. In addition the ageing of trade debts is indicative of sound credit risk profile. With the improvement in FFO, DSCR of the company increased to 4.2x for CY21, which compares favorably to peers. Overall equity of the company grew at a CAGR of 13% during the last 3 years (CY18-CY21) on the back of strong profitability and retention. Overall size of the equity, in absolute terms is well aligned with the assigned rating. Consequently, capitalization indicators have strengthened on a timeline basis. With the absence of any major CAPEX during the rating horizon, capital structure is expected to remain conservative during the rating horizon. Ratings are dependent upon retention and improvement in market share, capitalization and liquidity indicators, going forward.

Fatima Fertilizer Company Limited (FATIMA) — Annexure I

Financial Summary					*(Amount in Million)*
BALANCE SHEET	**CY18**	**CY19**	**CY20**	**CY21**	**1Q2022**
Property, Plant & Equipment	91,719	100,721	104,938	105,422	106,416
Long-term Investments	146	175	202	796	1,553
Long-term Loan to Associated Company	1,999	2,999	2,999	1,999	1,999
Stock in Trade	6,100	11,518	13,531	18,332	16,700
Trade Debts	2,565	7,207	4,450	9,654	10,702
Short-term Loan to Associated Company	3,242	3,242	3,242	7,000	7,000
Cash & Bank Balances	717	515	556	7,343	3,472
Other Assets	21,721	28,740	27,640	34,347	41,089
Total Assets	**128,208**	**155,116**	**157,557**	**184,893**	**188,931**
Trade and Other Payables	18,069	26,484	22,871	38,469	38,783
Short Term Borrowings	5,495	16,265	11,444	6,466	4,746
Long-Term Borrowings *(Inc. current matur)*	16,008	13,329	11,299	8,877	9,366
Deferred Liabilities	18,609	19,943	24,177	23,522	23,157
Other Liabilities	432	1,088	663	7,296	6,925
Total Liabilities	**58,613**	**77,108**	**70,454**	**84,630**	**82,977**
Issued, Subs, and Paid Up Capital	21,000	21,000	21,000	21,000	21,000
Tier-1 & Total Equity	**69,595**	**78,008**	**87,103**	**100,263**	**105,953**
INCOME STATEMENT					
Net Sales	51,310	74,964	71,267	112,488	29,114
Gross Profit	25,671	27,899	28,795	43,084	12,251
Operating Profit	18,613	20,954	22,212	30,192	8,670
Profit Before Tax	16,790	17,193	18,743	28,185	8,253
Profit After Tax	11,914	12,070	13,275	18,474	5,690
FFO	17,364	13,587	14,841	32,537	8,662
RATIO ANALYSIS					
Gross Margin (%)	50.0%	37.2%	40.4%	38.3%	42.1%
Net Margin (%)	23.2%	16.1%	18.6%	16.4%	19.5%
FFO to Long-Term Debt*	1.08	1.02	1.31	3.67	3.70
FFO to Total Debt*	0.81	0.46	0.65	2.12	2.46
Debt Servicing Coverage Ratio (x)*	2.14	1.52	1.78	4.17	9.23
ROAA (%)*	9.7%	8.5%	8.5%	10.8%	12.2%
ROAE (%)*	17.6%	15.5%	15.2%	18.4%	21.5%
Gearing (x)	0.31	0.38	0.26	0.15	0.13
Debt Leverage (x)	0.84	0.99	0.81	0.84	0.78
Current Ratio	0.89	0.88	1.03	1.32	1.40
Inventory + Receivables/Short-term Borrowings	1.58	1.15	1.57	4.33	5.77
**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
05/31/2022	AA+	A-1+	Stable	Upgrade
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	May 16, 2022
Mr. Kashif Mustafa	Financial Controller	