RATING REPORT

Fatima Fertilizer Company Limited (FATIMA)

REPORT DATE:
July 20, 2023

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	*July 20, 2023*		*May 31, 2022*	
Rating Action	*Reaffirm*		*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

Applicable Rating Criteria: Industrial Corporates (May 2023)
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

VIS Issue/Issuer Rating Scale
https://docs.vis.com.pk/docs/VISRatingScales.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 Company recently acquired Pakarab plant as well. Total name plate capacity of FATIMA is now 2.57m MTs. The plants are located at Sadiqabad, Sheikhupura and Multan.

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

The ratings assigned to Fatima Fertilizer Company Limited ('FATIMA' or 'the Company') take into account low business risk profile of the fertilizer sector owing to non-cyclical nature of the industry, increasing significance of food security amidst developing economic situation across the world and consequent enhancement in strategic importance of the fertilizer sector for the Country. On the other hand, business risk incorporates sensitivity of margins to gas & phosphate pricing and devaluation of local currency. In addition, ratings also factor in FATIMA's strategic positioning as the leading player of the fertilizer sector in the domestic market. The ratings reflect sound financial risk profile of the Company marked by positive momentum in revenues, sizable margins and profitability indicators, sound liquidity profile and substantial debt-service coverages. Further, the ratings are underpinned by conservative capital structure with limited reliance on long-term borrowings. Despite procurement of incremental long-term to fund capex, gearing remained on a lower side and well aligned with the assigned ratings. Moreover, given there are no expansion plans in perspective with only normal BMR to be carried out, the leverage indicators are projected to improve during the rating horizon. Ratings will remain contingent upon retention and improvement in market share, capitalization and liquidity indicators, going forward.

Company Profile

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, was amalgamated in the Company. During CY20, FATIMA further acquired production plants of Pakarab as approved by shareholders. The Company has 3 manufacturing facilities, which are listed below:

- **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. The plant has a nameplate capacity of 1,280,000 MTs annually (Urea: 500,000 MTs, CAN: 420,000 MTs, NP: 360,000 MTs).
- **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 846,900 MTs (Urea: 92,400 MTs, NP: 304,500 MTs & CAN: 450,000 MTs). Previously the plant had a history of remaining non-operational, as a result of non-availability of gas. However, the management has now signed a Gas Supply Agreement (GSA) with Mari, valid for 7 years.

Subsequently, in terms of total capacity recorded at 2.57m MTs, FATIMA is now the biggest player in the market.

Economic Update, Sector Update & Business Risk

Agriculture & its Economic Impact:

Agriculture has always remained essential of our economy and with the support of

Government of Pakistan (GoP), local fertilizer industry has ensured timely provision of fertilizers to farmers at affordable prices. While ensuring food security of the country, local fertilizer industry is contributing substantially towards foreign currency reserves with conservation and provision of locally produced fertilizer to farmers at lower prices. Currently, Pakistan is facing sizable pressure on fiscal and current account fronts. During FY22, agriculture sector faced issues of rising prices and climate change which has increased frequency of weather events; the same has directly impacted farm economics. The weaknesses of Pakistan's agriculture sector have now begun to impact on macro-economic level.

Over the years, Pakistan has been spending billions of dollars on imports of cotton, wheat, oil/oil seeds and other agricultural products. With catalyzation of green revolution, agriculture sector has got the potential to provide much needed support to the Government in meeting its economic challenges. By promoting modern agricultural techniques and technologies and by efficient use of available resources, agricultural output can be enhanced significantly that will help in saving billions of dollars for the Country by import substitution and by creating further avenues of exports. Pakistan's agriculture transformation can reduce annual trade deficit by almost US $48.5b. Per acre yield enhancement of wheat, cotton and oil seed crops can produce an additional revenue of US $14.5b per annum from the existing Agri landscape. Moreover, the land utilization from millions of acres of uncultivated lands has the potential of generating an additional revenue of around US $34b per annum.

International Fertilizer Market Developments:

The global markets for nitrogen, phosphates and potash were already in a tightened state following strong demand driven by the Covid-19 induced emphasis on food security and a series of supply interruptions and high raw material costs in FY21. Subsequently, the outgoing year was marked by record high prices of fertilizer products, levels which were last recorded around FY08. DAP and MAP prices exceeded USD 1,000 per MT, peaking around April, while their inputs such as Phosphoric Acid, Rock Phosphate, Ammonia, and Sulphur also reached record high values. From April till December 2022, these commodities softened gradually, despite buyers holding back their purchasing in anticipation of sharper drops. Supply restrictions increased further complexity in FY22 starting with the Russia-Ukraine conflict in February; this resulted in Russia offering discounted pricing on fertilizer products. Price of Urea in the international market reached historic highs in 1QFY22, eclipsing previous peaks of FY21 and FY08, backed by strong price of Ammonia feedstock gas during the year, with surges in Urea prices seen in March and then September, thereafter, easing off by around 30% during November and December to within USD 500 per MT by year end. Raw material costs remained reasonably stable primarily due to unavailability of ammonia from the market owing to Russia-Ukraine clash, and ammonia plant shutdowns around Europe due to unfavorable production economics.

Domestic Sector & Business Risk:

Fertilizer sector in Pakistan is oligopolistic in nature with six players operating in the industry. The outgoing year closed with a total fertilizer industry offtake (nitrogen & phosphate) of 9.5 million MT, decreasing by 5.9% in comparison with last year's off-take of 10.1 million MT. This decrease is primarily attributed to the considerable decline in phosphate sales, particularly DAP. DAP off-take stood at 1.20 million MT in the year 2022 which represents 36% decline when compared with 1.87 million MT off-take in FY21. DAP prices were recorded 76% in comparison to preceding year mainly on account of high cost of imported raw materials and the significant devaluation of local currency against US Dollar. The major raw material of DAP is phosphate, which is imported. Fauji Fertilizer Bin Qasim Limited (FFBL) is the only player who produced DAP while the remaining players imported and sold it in the local market. Relative to 36% decline in DAP, NP recorded decline in offtake by 15% in comparison to FY21. Major reasons for the decline were highest ever phosphate prices throughout 1HFY22, unprecedented floods & rainfall and loss of standing crops which significantly impacted farmers economics.

On the other hand, in the local context urea is generically synonymous with fertilizer therefore the demand for the same has remained price inelastic since over a decade. During FY22, urea offtake clocked in at 6.6m MTs, up by 4.3% Y/Y as opposed to 6.34m MT in the previous year. It is pertinent to mention that local fertilizer industry has largely shielded the farmers from international urea price rise as local urea is available to farmers at a discount of around 66%. Further, out of these substantial discounts being enjoyed by local farmers, over 2/3rd of the discount has been provided by the industry while the government contributes 1/3rd in the form of price difference of feed and fuel gas. Given, the overall production was recorded slightly lower than offtake at 6.3m MTs, the gap was filled through imports of around 500k MT urea in the outgoing year. Moreover, FATIMA is the only producer of CAN in the local market. All the available CAN volumes were sold during the year reflecting its high demand in the farming community of the country. CAN and NP's offtake remains volatile and it contingent upon on the market supply.

Table 1: Fertilizer Industry Offtake

Offtake In K MT	2019	2020	2021	2022	1QCY22	1QCY23
Urea	6,228	6,040	6,343	6,616	1,633	1,623
DAP	1,879	2,171	1,881	1,204	248	245
CAN	472	655	908	868	215	163
NP	544	712	845	741	149	196

VIS considers business risk profile of fertilizer sector to be medium to low owing to non-cyclical nature of the sector, food security associated with the fertilizer industry, low risk of substitution and limited dependency on technological enhancements. However, key business risks include sensitivity of margins to gas & phosphate pricing along with rupee depreciation.

Operational Update

Capacity Utilization

After acquiring Pakarab, FATIMA became the largest fertilizer player in the industry with total capacity of 2.57m MTs followed by EFERT and FFC with 2.27m MTs and 2.0m MTs respectively. During the outgoing year, highest ever production volume was recorded at 2.8m MT on a combined basis in line with increase in Urea production by 37%, CAN by 9% and NP by 4%; the aggregate production was recorded 17% higher than the preceding year. Given the designed production capacity remained unchanged, the additional production volumes were generated owing to enhanced plants efficiencies and incremental production from Sheikhupura plant in line with better availability of gas as compared to previous year. Underutilization in FY21 was due to planned turnarounds at plants along with non-availability of gas at Sheikhupura plant for a limited period. Subsequently, the capacity utilization improved for all products during the outgoing year. Since the past two years, the management is focusing on increasing NP production given the product entails higher margins.

Offtake

In line with the increase in urea production, offtake of urea increased on a timeline by end-FY22. However, NP's sale dropped by 16% Y/Y on the back of a marginal decline in overall industry demand as the offtake was recorded lower by 12% Y/Y. Given NP is used as a substitute for DAP in farming, FATIMA utilized the opportunity emanating from price driven demand compression of DAP to increase NP sales during 1HFY22. Going forward, the Company has adopted push strategy with enhanced focus on NP.

Table 2: Utilization & Offtake

	CY20	CY21	CY22	1QCY23
Urea				
Capacity (MTs)	1,037,900	1,037,900	1,037,900	259,475
Production (MTs)	680,890	800,634	1,095,084	137,776
Utilization (%)	***66%***	***77%***	***106%***	***53%***
CAN				
Capacity (MTs)	870,000	870,000	870,000	217,500
Production (MTs)	577,974	792,438	866,620	164,121
Utilization (%)	***66%***	***91%***	***100%***	***75%***
NP				
Capacity (MTs)	664,500	664,500	664,500	166,125
Production (MTs)	637,406	829,822	866,724	137,556
Utilization (%)	***96%***	***125%***	***130%***	***83%***
		Sales Offtake (MTs)		
Urea	754,429	835,479	1,100,992	135,698
CAN	489,751	893,662	868,464	164,670
NP	444,469	882,475	745,385	146,909
DAP	137,874	65,848	20,313	20,298

Key Rating Drivers

Sizable uptick in topline; however, the same did not reflect in the bottom line owing to dip in margins, increasing operating expenses and significant escalation of taxation expense

Topline of the Company registered a massive growth of 58%, recorded at Rs. 152.2b (FY21: Rs. 112.5b) during FY22 in line with increase in volumetric sales and prices of the entire product range; the increase in final prices was in turn an outcome of rising international prices, high input costs due to inflation and change in taxation regimes. NP contributed 55% of the total sales revenue followed by Urea and CAN representing 26% and 16% respectively, whereas remaining sales represent revenue from imported fertilizer and mid-products. FATIMA's gross margins historically have remained volatile due to changes in sales mix and gas availability at Sheikhupura plant. The decline in margins to 34% (FY21: 38%) in FY22 mainly emanates from full year impact of increase in gas price due to end of concessionary period gas in June 2021, higher input costs of raw materials and sharp decline in value of Pak Rupee as compared to last year. Previously, Gas Sales Agreement (GSA) for subsidized feed gas was locked in at $0.70/mmbtu for FATIMA's main plant. Further, the surge in manufacturing costs is also attributable to inflationary pressures and costs relating to planned turnarounds for its Multan and Sheikhupura plants.

The distribution and administrative expenses scaled up to Rs. 13.9b (FY21: Rs. 8.9b) owing to increase in volumetric sales, higher fuel costs and inflationary impact. In addition, the finance cost increased mainly due to the surge in benchmark rates. Other operating expenses escalated to Rs. 6.3b (FY21: 4.7b) on account of impairment against advance for investment, unrealized loss on remeasurement of investments in listed securities and exchange loss. On the other hand, increase in other income to Rs. 2.4b (FY21: 1.2b) was a function of higher rate of profit on loans to related parties, short terms investments, savings accounts, and dividend income.

FATIMA reversed temporary gain amounting to Rs. 274.2m (FY21: 367.5 million) which was booked as notional gain in FY20 amounting to Rs. 877.5m on remeasurement of Gas Infrastructure Development Cess (GIDC) liability. It is pertinent to mention that the Company has filed suit for declaration and injunction in the High Court of Sindh and has obtained a stay order against collection and recovery of such Cess on account of issues of computation of liability and various other grounds; there has been no significant progress in this regard during the rating review period. Moreover, the Company has further recognized a loss allowance of Rs. 109.7m (FY21: Rs. 109.7m) on subsidy receivable from the Government of Pakistan (GoP) as per the requirements of International Financial Reporting Standards and in view of considerable delay in settlement by the Government. This temporarily recorded loss allowance will be reversed in due course of time. In addition, the increase in taxation represents imposition of Super Tax on profits for the current year as well as on last year which has resulted in higher effective tax rate of 54% (2021: 34%), thus restricting bottom line growth in comparison with corresponding period last year. Subsequently, the Company posted Profit before Tax of Rs. 30.8b compared to Rs. 28.2b in the preceding year. However, due to retrospective imposition of Super Tax, the Company has posted a bottom line of Rs. 14.1b (FY21: Rs. 18.5b) reflecting a decrease of 24% during FY22.

The positive trajectory of revenue continued during the ongoing year with FATIMA posting revenue of Rs 33.5b (1QFY22: Rs 29.1b) during 1QFY23. Moreover, gross margins rebounded to 42.2% in line with increased contribution of DAP to sales mix. Going forward, gross margins are expected to remain volatile amid changes in sales mix according to demand, however, the same is forecasted to stay in the range of 36%-42%. Furthermore, owing to increase in operating and financial expense borne, the Company reported profit before tax of Rs. 7.3b in comparison to Rs. 8.3b in the same period last year, while the bottom line was recorded at Rs. 4.3b reflecting a decrease of 24% during the ongoing year.

Table 3: Sales & Margins

	CY20	CY21	CY22	1QCY23
Sales (In PKR' Millions)	71,267	112,488	152,231	33,519
Product-wise Breakup				
- **Urea**	34%	23%	26%	18%
- **CAN**	20%	19%	16%	19%
- **NP**	33%	52%	54%	50%
- **DAP**	13%	5%	3%	12%
- **Others**	1%	1%	1%	1%
Gross Margin	40.4%	38.3%	34.1%	42.2%
Operating Margin	31.2%	26.8%	22.1%	24.9%
Net Margin	18.6%	16.4%	9.3%	12.9%

Liquidity profile sound although dip in Funds from Operations (FFO) evidenced; the same is a function of change in profitability metrics

FFO declined during the outgoing year on account of shrinkage of margins. In addition, apart from reduction in FFO the decline in cash coverages to outstanding obligations on a timeline basis was also an outcome of increase in utilization of borrowings. Nevertheless, despite a downward trend seen, FFO to Total Debt and FFO to Long-term Debt are in comfortable ranges. On the other hand, Debt Service Coverage Ratio (DSCR) registered improvement during the outgoing year as a significant quantum of long-term debt was procured in FY22 repayment of which will start falling in the ongoing year. Subsequently the DSCR was recorded lower at end-1QFY23 as opposed to FY22; however, the same is sizable and in sync with the assigned rating requirements. Further, the current ratio slightly improved on a timeline in line with growth manifested in trade receivables. Out of total receivables amounting to Rs. 22.8b (FY21: Rs. 9.7b) at end-FY22, Rs. 9.6b (FY21: Rs. 4.0b) pertained to receivable from associate concern, Pakarab Fertilizers, on account of toll manufacturing in the normal course of business. There was no past due debt at the reporting date. In addition, the maximum amount outstanding at any time during the outgoing year was recorded at Rs. 12.3b. As per the management, the aging of receivables is satisfactory with no major credit losses incurred in the past. Further, FATIMA manages liquidity risk by maintaining sufficient cash and funding available through an adequate amount of committed credit facilities. The Company had unutilized borrowing limits from financial institutions to the tune of Rs. 19.6b (FY21: Rs. 20.6b) at end-FY22. Coverage of short-term borrowings by stock in trade and trade debts has remained sound. Moreover, the Company continues to enjoy negative cash conversion cycle indicating that the suppliers are financing the working capital requirements; the same has been positively in built in the assigned ratings.

Table 4: Liquidity & Cashflow Indicators

	CY20	CY21	CY22	1QCY23
Cash Conversion Cycle (Days)	(57)	(75)	(29)	(61)
- **Receivable Days (Days)**	23	31	55	57
- **Inventory Days (Days)**	116	96	118	136
- **Payable Days (Days)**	197	202	202	255
Current ratio (x)	1.03	1.32	1.28	1.34
FFO (Rs. in m.)	14,841	32,537	28,280	5,209
FFO/Debt (x)*	0.65	2.12	1.11	1.09
FFO/Long Term Debt (x)*	1.31	3.67	2.26	1.80
DSCR (x)*	1.78	4.17	6.00	3.60

**Annualized*

Support extended to group companies through provision of short-term loans

FATIMA has provided short-term advances worth Rs. 9.9b (FY22: Rs. 8.5b; FY21: 7.0b) to group companies at end-1QFY23. One loan amounting to Rs. 5.0b at end-FY22 is extended to Reliance Commodities (Pvt) Limited; the same is repayable within 30 business days' notice of demand. The markup rate on the aforementioned loan is 6M-KIBOR+2% per annum. The facility is fully secured against a ranking charge over the present and future current assets of the associated company. The other loan amounting to Rs. 3.5b (FY21: Rs. 2.0b) is provided to Pakarab Fertilizers Limited, to support functionality and business requirements. The loan, repayable within 30 business days' notice of demand, is fully secured against a ranking charge over the present and future current assets of the associated company with markup rate locked in at 6M- KIBOR+ 2% per annum. Given successful operations, FATIMA does not face any liquidity constraints in the foreseeable future therefore the loans are expected to remain vested in the associate companies in the long-term.

Sizable Capital Buffers

On the back of strong profitability and profit retention the Company has been able to build up a sizeable capital buffer. Overall equity of the Company grew at a CAGR of 11% during the last 5.25 years (Jan'18-Mar'23). Moreover, the size of equity base in absolute terms, comfortably complies with the benchmarks for assigned ratings. In addition, the Company paid final cash dividend of Rs. 3.5/share for the year FY21 amounting to Rs. 7.4b during the outgoing year. Further, FATIMA's long-term borrowings increased on timeline during the period under review owing to fresh debt mobilized for the routine CAPEX carried out during FY22. The short-term borrowings on the other hand exhibited a mixed trend in line with change in working capital requirements. The short-term borrowings were recorded higher at Rs. 12.9b (FY21: Rs. 6.5b) at end-FY22 to fund growth in inventory levels; the same subsided to Rs. 7.5b by end-1QFY23 in line with subsequently rationalization of stock particularly inventory purchased for resale purpose. Going forward, the management has no plan to obtain further long-term debt over the foreseeable period. As a result of increase in total borrowings despite augmentation of equity base, gearing trended upwards during the outgoing year; however, the same scaled down to pre-rating upgrade level by end-1QFY23 due to decline in short-term funding. With increase in scale of business operations after amalgamation of Pakarab Plant, total liabilities especially payables grew notably; the same resulted in increase in leverage on a timeline by end of the outgoing year. However, leverage improved during the ongoing year and is in line with the assigned ratings. With the absence of any major CAPEX plan in perspective, capital structure is expected to remain conservative and improve during the rating horizon.

Table 5: Capitalization

Rs. in M.	Dec'20	Dec'21	Dec'22	Mar'23
Net Equity	**87,103**	**100,263**	**106,911**	**111,263**
- **Paid-up Capital**	21,000	21,000	21,000	21,000
- **Reserves**	66,103	79,263	85,911	90,263
Debt	**22,743**	**15,343**	**25,371**	**19,060**
- **Long Term**	11,299	8,877	12,487	11,579
- **Short Term**	11,444	6,466	12,884	7,481
Total Liabilities	70,454	84,630	115,595	107,054
Gearing (x)	0.26	0.15	0.24	0.17
Leverage (x)	0.81	0.84	1.08	0.96

Fatima Fertilizer Company Limited (FATIMA) **Annexure I**

Financial Summary					(Amount in Million)
BALANCE SHEET	Dec'19	Dec'20	Dec'21	Dec'22	Mar'23
Property, Plant & Equipment	100,721	104,938	105,422	110,257	112,576
Long-term Investments	175	202	796	1,469	1,472
Long-term Loan to Associated Company	2,999	2,999	1,999	2,999	2,999
Stock in Trade	11,518	13,531	18,332	32,488	28,922
Trade Debts	7,207	4,450	9,654	22,831	21,069
Short-term Loan to Associated Company	3,242	3,242	7,000	8,500	9,867
Cash & Bank Balances	515	556	7,343	2,611	2,835
Other Assets	28,740	27,640	34,347	41,351	39,955
Total Assets	**155,116**	**157,557**	**184,893**	**222,506**	**218,299**
Trade and Other Payables	26,484	22,871	38,469	55,372	54,127
Short Term Borrowings	16,265	11,444	6,466	12,884	7,481
Long-Term Borrowings *(Inc. current matur)*	13,329	11,299	8,877	12,487	11,591
Deferred Liabilities	19,943	24,177	23,522	25,371	25,146
Other Liabilities	1,088	663	7,296	9,481	8,711
Total Liabilities	**77,108**	**70,454**	**84,630**	**115,595**	**107,056**
Issued, Subs, and Paid Up Capital	21,000	21,000	21,000	21,000	21,000
Tier-I/ Total Equity	**78,008**	**87,103**	**100,263**	**106,911**	**111,263**
INCOME STATEMENT	CY19	CY20	CY21	CY22	1QCY23
Net Sales	74,964	71,267	112,488	152,231	33,519
Gross Profit	27,899	28,795	43,084	51,943	14,152
Operating Profit	20,954	22,212	30,192	33,695	8,342
Profit Before Tax	17,193	18,743	28,185	30,765	7,343
Profit After Tax	12,070	13,275	18,474	14,124	4,332
FFO	13,587	14,841	32,537	28,280	5,202
RATIO ANALYSIS	CY19	CY20	CY21	CY22	1QCY23
Gross Margin (%)	37.2%	40.4%	38.3%	34.1%	42.2%
Net Margin (%)	16.1%	18.6%	16.4%	9.3%	12.9%
FFO to Long-Term Debt*	1.02	1.31	3.67	2.26	1.80
FFO to Total Debt*	0.46	0.65	2.12	1.11	1.09
Debt Servicing Coverage Ratio (x)*	1.52	1.78	4.17	6.00	3.60
ROAA (%)*	8.5%	8.5%	10.8%	6.9%	7.9%
ROAE (%)*	15.5%	15.2%	18.4%	13.6%	15.9%
Gearing (x)	0.38	0.26	0.15	0.24	0.17
Debt Leverage (x)	0.99	0.81	0.84	1.08	0.96
Current Ratio	0.88	1.03	1.32	1.28	1.34
Inventory + Receivables/Short-term Borrowings	1.15	1.57	4.33	4.29	6.68

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
07/20/2023	AA+	A-1+	Stable	Reaffirmed
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.

Disclaimer
Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information.

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Omer Yousaf	Manager Treasury	Feb 28, 2023
Mr. Kashif Mustafa	GM Finance	