RATING REPORT

Fatima Fertilizer Company Limited (FATIMA)

REPORT DATE:

September 03, 2024

RATING ANALYST:

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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 Outlook/Rating Watch	*Stable*		*Stable*	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	*September 03 '24*		*July 20 '23*	

COMPANY INFORMATION	
Incorporated in 2003	**External auditors: Yousuf Adil Chartered Accountants**
Public Listed 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- 15.19%	
Mr. Muhammad Arif Habib- 12.33%	
Fatima Trade Company- 8.18%	
Fatima Management Company- 8.1%	
Mr. Faisal Ahmed Mukhtar- 6.28%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE(S)

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 listed company. FATIMA has expanded its operations by acquiring the Dawood Hercules Plant, now known as FatimaFert, and recently the Pakarab Plant. With these acquisitions, FATIMA's total nameplate capacity has reached 2.75 million metric tons. The company operates three strategically located plants in Sadiqabad, Sheikhupura, and Multan, making it the largest player in terms of manufacturing capacity in the Fertilizer market.

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 Aisha Steel Mills Limited and Javedan Corporation Limited

Profile of CEO

Mr. Fawad Ahmed Mukhtar is the CEO and director of the company. He has extensive 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

RATING RATIONALE

Company Profile

Fatima Fertilizer Company Limited (FATIMA) or 'the Company' is a joint venture between the Fatima Group and Arif Habib Group. Headquartered in Lahore, FATIMA manufactures, produces, buys, sells, imports, and exports fertilizers and chemicals. Company produces two intermediary products, Ammonia and Nitric Acid, and three final products: Urea, Calcium Ammonium Nitrate (CAN), and Nitro Phosphate (NP). Company has three manufacturing facilities, which are listed below:

- **Sadiqabad Plant:** Fully integrated production facility that specializes in the production of CAN, NP and Urea, and intermediary products such as Ammonia and Nitric Acid. The plant benefits from a dedicated gas allocation of 110 MMCFD from the Mari Gas and operates 56 MW captive power plants. The plant was initially designed with an annual capacity of 1,280,000 Metric Tons (MT), the plant has enhanced its production capabilities through various improvements. It now produces 500,000 MT of Urea, 470,000 MT of CAN (up from the original 420,000 MT), and 490,000 MT of NP (up from the original 360,000 MT).
- **Sheikhupura Plant:** Acquired by Fatima in 2015, the Sheikhupura Plant operates based on RLNG and has a urea manufacturing capacity of 445,500 MT annually.
- **Multan Plant:** Acquired from Pakarab Fertilizers Limited on September 1, 2020, and was integrated into Fatima's operations in July, 2022. This plant produces Ammonia, Urea, Nitric Acid, Nitro Phosphate, and Calcium Ammonium Nitrate and has a manufacturing capacity of 846,900 MT annually with a product wise distribution of 92,400 MT of Urea, 304,500 MT of NP, and 450,000 MT of CAN. Despite facing historical operational challenges due to gas supply issues, the management successfully had secured a seven-year Gas Supply Agreement with Mari Gas by the end of 2022. This agreement, lasting until 2029, ensures a stable gas supply and continuous operations for the plant.

With a total manufacturing capacity of 2.75 million MT, FATIMA is the largest player in the market in terms of capacity.

Economic Update, Sector Update & Business Risk

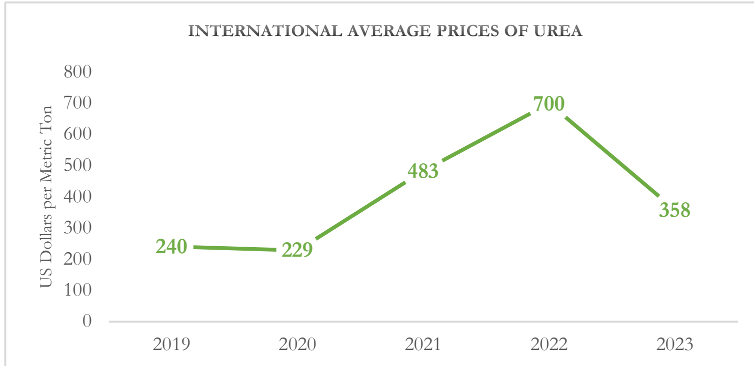
Agriculture and its Economic Impact

Agriculture remains the backbone of Pakistan's economy, contributing 24% to the country's GDP as of 2023. Within this vital sector, fertilizer sector plays a crucial role by providing essential nutrients for plant and crop growth. Fertilizer industry not only supports agriculture but also has a significant economic impact, contributing about 3.9% to Pakistan's Large-scale Manufacturing sector and 0.8% to the overall GDP. As a key input for agricultural production, fertilizers are instrumental in ensuring food security across the nation.

In 2023, Pakistan's economy contracted by 0.17% in real terms, with a significant 10.3% decline in the large-scale manufacturing sector. Fertilizer sector's domestic production of all fertilizer products during 2023 was 8.4 million tons, marking a 9% decrease from 9.2 million tons in 2022. Despite these declines, the total offtake of fertilizer products in 2023 rose by 7.13%, amounting to 10.1 million tons. This notable increase in offtake can be primarily attributed to the exceptionally low levels in 2022 due to widespread flooding. The recovery in offtake suggests a resurgence in demand as conditions improved.

Fatima Cement Limited as well.

International Fertilizer Market Developments



(Source: Fertilizer Week, Fertilizer International; World Bank)

Global fertilizer market in 2023 witnessed a significant shift from the record-high prices observed in 2022. Average international urea prices were recorded at USD~700/MT during 2022 which declined substantially by 48.9% to USD~358 in 2023. Russia-Ukraine conflict led to a dramatic rise in urea prices in 2022 due to trade disruptions. However, the subsequent easing of trade restrictions on Russia and the discovery of new material sources in 2023 resulted in a sharp decline in the prices of natural gas, ammonia, and potash, key raw materials for fertilizer production. This reduction in costs is anticipated to further stabilize urea prices in 2024, improving global supply and benefiting Pakistan's fertilizer industry. Stable demand for urea, despite these price fluctuations, highlights its critical role in maintaining agricultural productivity.

Domestic Sector & Business Risk:

VIS considers business risk profile of fertilizer sector to be medium to low owing to non-cyclical nature of the sector vis à vis volatile macro-economic conditions, 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. The Fertilizer sector is dominated by five major players—Faujis, Engro, Fatima and Agritech— which control around 95% of market sales, highlighting its oligopolistic structure.

Urea production in 2023 amounted to 6.4 million MT, which is a 1.59% increase compared to 6.3 million MT in 2022, with an offtake of 6.6 million MT, showing a 1.54% increase compared to 6.5 million MT in 2022. DAP production stood at 0.7 million MT, which is an 17.65% decrease compared to 0.85 million MT in 2022, with an offtake of 1.5 million MT, reflecting a 25% increase compared to 1.2 million MT in 2022, requiring imports of 0.5 million MT. Average local prices of Urea (PKR 3,427/50Kg) and DAP (PKR 11,006/50Kg) witnessed an increase of 51.0% and 3.0% respectively in 2023. This surge was attributed to heightened input costs, gas curtailments, and elevated energy expenses. NP offtake increased by 46% to 1,084,714 MT from 741,156 MT indicating preference for NP fertilizers due to their effectiveness and cost advantages over alternatives like DAP.

Fertilizer sector encountered significant challenges, including gas supply disruptions that led to a halt in operations during the first quarter due to suspension of gas supply to fertilizer plants on the SNGPL.

FATIMA is the sole producer of CAN in the local market. The entire available volume of CAN was sold throughout the year, indicating high demand within the farming community. The offtake of both CAN and NP remains volatile and is dependent on market supply.

Table 1: Fertilizer Industry Offtake

Industry Offtake In KMT	2021	2022	2023	1QCY24
Urea	6,343	6,616	6,642	1,827
DAP	1,881	1,204	1,576	288
CAN	908	868	800	226
NP	845	741	1,084	190
Total	9,977	9,429	10,102	2,531

Operational Update

In CY23, FATIMA produced a total of 2.58 million MT of fertilizers, reflecting a 10% decline from the record high of 2.88 million MT in 2022. Urea production fell by 10% to 985,419 MT, CAN decreased by 3% to 839,721 MT, and NP dropped by 18% to 713,038 MT. Urea capacity utilization declined from 106% in CY22 to 95%, CAN capacity utilization slightly decreased from 94% to 91%, and NP capacity utilization fell from 109% to 90% in CY23. Consequently, overall capacity utilization decreased from 109% in 2022 to 90% in 2023. Lower production in CY23 was due to planned extended shutdowns for maintenance and upgrades, along with the suspension of gas supply to Sheikhupura Plant which operates on the SNGPL network during 1QCY23. Management's focus on increasing NP production due to higher margins has continued. The Company had a carryover stock of 300,000 MT of NP from CY22 production, which was sold in 2023.

Table 2: Utilization & Offtake'

	2021	2022	2023	1QCY24
		Urea		
Capacity (MTs)	1,037,900	1,037,900	1,037,900	259,475
Production (MTs)	800,634	1,095,084	985,419	335,671
Utilization (%)	77%	106%	95%	129%
Offtake	**835,479**	**1,106,445**	**969,575**	**274,344**
		CAN		
Capacity (MTs)	920,000	920,000	920,000	230,000
Production (MTs)	792,438	866,620	839,721	219,402
Utilization (%)	86%	94%	91%	95%
Offtake	**893,662**	**871,075**	**800,339**	**226,537**
		NP		
Capacity (MTs)	794,500	794,500	794,500	198,625
Production (MTs)	829,822	866,724	713,038	223,054
Utilization (%)	104%	109%	90%	112%
Offtake	**882,475**	**720,668**	**1,000,149**	**170,479**

Key Rating Drivers

Sizeable uptick in Revenue Amidst higher offtake of NP and DAP while notable increase in Urea and CAN prices also supported the topline growth. Net Margins remained intact. 1QCY24 displayed improvement in margins.

FATIMA experienced significant growth in revenues in CY23, with topline increasing by 47% Y/Y to Rs. 233b. This growth was driven by higher volumetric sales of NP and DAP and increased prices of Urea and CAN. Gross profit clocked in at Rs. 72b compared to Rs. 52b in CY22. However, gross margins inched down to 31.11% in CY23 from 33.04% in CY22, due to higher input costs and operational challenges, including planned shutdowns and gas supply issues. Operating expenses have increased amid higher inflation during the period, however, with achieving the better operational efficiency, the Company's operating margins slightly increased to 23.0% in CY23 compared to 21.5% in CY22. Finance cost has increased amid higher interest rates, however the substantial increase in other income have absorbed the same. Consequently, net margins of the Company remained intact at 9.6% in CY23 compared to 9.0% in CY22.

During 1QCY24, FATIMA's topline revenue nearly doubled to Rs. 66 billion compared to 1QCY23. This increase was due to higher sales volumes and increased prices of Urea, NP, and CAN. Though the gas supply remained stable, gross margins decreased slightly to 41.27% in 1QCY24 from 42.2% in 1QCY23 due to higher fuel and power costs. Going forward, gross margins are expected to remain sensitive to changes in the sales mix according to demand, with projections indicating a range of 36%-42%. Operating margins declined to 26.9% in 1QCY24 compared to 34.2% in 1QCY23, mainly due to increase in operating expenses and decline in other income with reduction in income from associates. Finance costs decreased due to a reduction in long-term debt and zero draw down against short-term credit lines. However, net margins fell to 12.50% in 1QCY24 compared to 22.0% in 1QCY23, as the effective tax rate of the Company increased to 49% in 1QCY24 compared to 29% during same period last year.

Table 3: Sales & Margins

	2021	2022	2023	1QCY24
Sales (In PKR' Millions)	**112,489**	**158,797**	**232,755**	**65,246**
Product-wise Sales Breakup				
- **Urea**	23%	26%	24%	30%
- **CAN**	19%	18%	18%	23%
- **NP**	52%	52%	49%	44%
- **DAP**	5%	2%	9%	2%
- **Others**	1%	1%	1%	1%
Gross Margin	38.3%	33.04%	31.11%	41.27%
Operating Margin	26.84%	21.48%	22.96%	26.58%
Net Margin	16.42%	9.01%	9.62%	12.50%

Sound liquidity profile with robust debt service coverage

Funds from Operations (FFO) registered strong growth, reaching Rs. 46 billion (CY22: Rs. 28 billion) in CY23 due to an increase in profitability. This improvement in FFO is reflected in stronger coverage ratios, with FFO to Long-Term Debt rising significantly to 5.58x from 2.31x in the previous year. The Debt Service Coverage Ratio (DSCR) also improved to 6.32x (CY22: 5.53x), in line with the increased in profitability. FATIMA continued to have a negative cash conversion cycle, which increased to 40 days in CY23 compared to 19 days in 2022, reflecting that suppliers are financing the working capital requirements. The current ratio also displayed improvement from 1.23x at end'CY22 to 1.42x at end'CY23.

FFO continued its upward trajectory, reaching Rs. 15 billion in 1QCY24 (1QCY23: 5 billion). This led to a further improvement in FFO and debt coverages and negative cash conversion cycle continued but declined to 6 days, while the current ratio increased to 1.56x at end'1QCY24.

Table 4: Liquidity & Cashflow Indicators

	CY21	CY22	CY23	1QCY24
Cash Conversion Cycle (Days)	(75)	(19)	(40)	(6)
- **Receivable Days (Days)**	31	31	55	15
- **Inventory Days (Days)**	96	154	74	105
- **Payable Days (Days)**	202	204	129	126
Current ratio (x)	1.32	1.23	1.42	1.56
FFO (Rs. in m.)*	32,473	28,043	45,919	60,979*
FFO/ Total Debt (x)*	2.12	1.04	5.58	29.64*
FFO/Long Term Debt (x)*	3.66	2.31	5.58	29.64*
DSCR (x)*	4.15	5.53	6.32	14.62*

**Annualized*

Strong capitalization profile with continued improvement

On the back of 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 9.6% during the last 5.25 years (Jan'19-Mar'24) to Rs 126.5bn at the end'1QCY24.

The size of equity base in absolute terms, comfortably complies with the benchmarks for assigned ratings. The Company paid cash dividend of Rs. 4.50/share for the year end-CY23 amounting to Rs. 11.01 billion which is 49.1% of Profit After Tax. Given ample liquidity available with the Company, the Short-term loans were fully settled in CY23. Drawdown against short term credit lines also remained nil during 1QCY24.

Going forward, the management has no plan to obtain short-term borrowings to finance its working capital requirements during the rating horizon. Management intends to obtain long term borrowings of Rs 3 billion in CY24 to refinance it prior year capex, however, also paying off Rs 2.22 bn in CY24 as principal repayments. Consequently, increase in net LT borrowing during CY24 is minor. Simultaneously, as a result of decrease in total borrowings amid no short term borrowings, and increase in equity base, gearing as well as leverage trended downwards to considerably lower levels at 0.07 and 0.95 respectively at end'CY23. While the gearing remained unchanged the leverage further improved during 1QCY24 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'21	Dec'22	Dec'23	Mar'24
Net Equity	**100,263**	**107,089**	**118,366**	**126,522**
- **Paid-up Capital**	21,000	21,000	21,000	21,000
- **Reserves**	79,263	86,089	97,366	105,522
Debt	**15,343**	**25,371**	**8,232**	**19,060**
- **Long Term**	8,877	12,161	8,232	8,229
- **Short Term**	6,466	14,910	-	-
Total Liabilities	84,630	124,005	112,401	110,512
Gearing (x)	0.15	0.25	0.07	0.07
Leverage (x)	0.84	1.16	0.95	0.87

Financial Summary				(Amount in millions)
BALANCE SHEET	Dec'21	Dec'22	Dec'23	Mar'24
Property, Plant & Equipment	105,422	114,338	110,025	108,617
Long-term Investments	796	2,455	7,912	8,618
Long-term Loan to Associated Company	1,999	-	-	-
Stock in Trade	18,332	44,837	32,415	44,595
Trade Debts	9,654	13,332	9,507	11,071
Short-term Loan to Associated Company	7,000	5,000	5,100	4,848
Cash & Bank Balances	7,343	2,411	7,095	5,360
Other Assets	34,347	48,722	58,713	53,926
Total Assets	**184,893**	**231,095**	**230,767**	**237,035**
Trade and Other Payables	38,469	59,395	56,608	53,437
Short Term Borrowings	6,466	14,910	-	-
Long-Term Borrowings *(Inc. current maturity)*	8,877	12,161	8,232	8,229
Deferred Liabilities	23,522	2,927	2,399	2,483
Other Liabilities	7,296	34,613	45,162	46,362
Total Liabilities	**84,630**	**124,005**	**112,401**	**110,512**
Issued, Subs, and Paid Up Capital	21,000	21,000	21,000	21,000
Equity	**100,263**	**107,089**	**118,366**	**126,522**
INCOME STATEMENT	Dec'21	Dec'22	Dec'23	Mar'24
Net Sales	112,488	158,797	232,755	65,246
Gross Profit	43,084	52,460	72,409	26,927
Operating Profit	30,192	34,105	53,431	17,343
Profit Before Tax	28,185	30,376	47,744	15,945
Profit After Tax	18,474	14,302	22,399	8,156
FFO	32,473	28,043	45,919	60,979
RATIO ANALYSIS	Dec'21	Dec'22	Dec'23	Mar'24
Gross Margin (%)	38.3%	33.0%	31.1%	41.5%
Net Margin (%)	16.4%	9.0%	9.6%	12.7%
FFO to Long-Term Debt*	3.66	2.31	5.58	29.64
FFO to Total Debt*	2.12	1.04	5.58	29.64
Debt Servicing Coverage Ratio (x)*	4.15	5.53	6.32	13.74
ROAA (%) *	10.8%	6.9%	9.7%	14.3%
ROAE (%) *	18.4%	13.4%	18.9%	28.6%
Gearing (x)	0.15	0.25	0.07	0.07
Leverage (x)	0.84	1.16	0.95	0.87
Current Ratio	1.32	1.23	1.42	1.56
Inv + Rec/ST Borrowings	4.33	3.90	0.00	-

**Annualized*

REGULATORY DISCLOSURES	Annexure II
Name of Rated Entity	**Fatima Fertilizer Company Limited**
Sector	Fertilizer
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see below

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
09/03/2024	AA+	A-1+	Stable	Reaffirmed
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

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	see below

Name	Designation	Date
Mr. Kashif Mustafa	GM Finance	**29 July, 2024**
Mr. Omer Yousuf	Senior Manager Treasury	
Mr. Bial Yousuf	AM Treasury	