



The Pakistan Credit Rating Agency Limited

# **FATIMA FERTILIZER COMPANY LIMITED (FATIMA)**

## **INSTRUMENT RATING REPORT**

	<b>NEW [AUG-17]</b>	<b>INITIAL [JAN-17]</b>
Listed and secured Sukuk (PKR 10.5bln)	AA-	AA-
Outlook	Stable	Stable

AUGUST 2017

**Sukuk:**

- Fatima issued a listed, rated and secured Sukuk of PKR 10.5bln, which has a tenor of 5 years. It has been issued in the Pre-IPO and IPO portion in the ratio of 75:25. Redemption of the Sukuk is in 10 semi-annual installments, started from date of first disbursement, and coupon payments are payable @6MK+1.10%. The instrument, initially, was secured with a ranking charge which would be upgraded into first pari-passu charge over all the present and future fixed assets with a minimum 25% margin, within 90 days of first disbursement. The company was required to create a Debt Payment Account with National Bank of Pakistan (NBP), which are the advisor and arranger of the Sukuk. An early redemption of the issue is allowed after 3 years of the issue. The Sukuk proceeds were utilized to settle existing Syndicated Term Finance Facility.

**Profile & Ownership**

- Fatima Fertilizer Company Limited (Fatima), incorporated in 2003, is listed on Pakistan Stock Exchange.
- Majority owned by Fatima Group (45%) and Arif Habib Group (31%); Fatima Group retains the management control.
- The group has interests in textile, sugar, mining and energy sectors and in addition owns Pakarab Fertilizer.
- Fatima owns a fertilizer complex with nameplate capacity of 1.28mln MT p.a (Urea, Can and NP combined), located at Mukhtar Garh, Rahim Yar Khan.
- There are two plants with nameplate capacity of 0.5mln MT p.a each for production of Ammonia and Nitric acid.
- Fatima Fert (formerly DH Fert) is a wholly owned subsidiary of Fatima adding 455K MT of additional capacity.

**Governance and Management**

- Eight member board of directors including the CEO; four representative of Fatima Group, two of Arif Habib Group and two independent members.
- The chairman of Arif Habib Group, Mr. Arif Habib, a reputed business professional, chairs the company's board.
- Mr. Fawad Ahmed Mukhtar, a seasoned entrepreneur, is the CEO of Fatima as well as of Pak Arab and Fatima Fert.

**Performance**

- Fatima's revenue, in CY16, continued to be driven by diversified fertilizer production; Urea (37%), CAN (34%), and NP (29%).
- Market share declined to 13% (CY15:15%), though company is the market leader in CAN (69%) and NP (60%).
- Topline grew by 12% YoY basis, wherein sizeable increase in NP sales (45%) diluted by decrease in Urea (32%) and CAN (23%).
- Commissioning of Waste Gas Boiler by April'16, boosted the energy efficiency.
- Increased offtake in the second half of CY16 compensated the previous month's impasse generating a gross profit margin of 53% (CY15: 56%).
- The company sold 123,227 tons of Urea and CAN in the month of Dec16 leaving inventory levels at 378,081tons (end-Nov16: 501,308).
- During CY16, Fatima's net profit stays at PKR 10bln (CY15: 9bln). Whereas, net profit margin of 29% remained highest among industry players.
- In 3MCY17, company hit the bottom line of PKR 2.2bln (3MCY16: PKR 1.1bln) on account of record quarterly sales of CAN (3MCY17:128mlntons; 3MCY15: 60mln tons), UREA (3MCY17: 99mlntons; 3MCY15: 49mln tons) and NP (3MCY17: 103mln tons; 3MCY16: 64mln tons).

**Business Strategy**

- Fatima envisages the optimal mix of Urea, CAN and NP to keep margins afloat
- Continue efforts in improving farmer's knowledge through providing technical assistance; conducting awareness seminars, meetings and trainings.
- Fatima envisages to have 35% shareholding in Midwest Fertilizer Corps (MFC)'s equity total worth of USD 875mln.
- Going forward, Fatima is availing the option to export Urea under the recent export quota of 0.6mln tons granted by government, which may relieve the urea inventory.

**Financial Risk**

- Traditionally low working capital requirement witnessed upspring due to inventory pile up; a phenomenon in line with industry. Increased working capital requirements (3MCY17: PKR 10,149mln) have been financed by hefty short term borrowings (3MCY17: 4500; PKR mln; CY16: PKR 8,011mln, CY15: PKR 10,229mln).
- Significant repayment of expensive loans with issuance of new Sukuk Certificates amounting PKR 10.5bln; the debt level remained at PKR 29,872 mln at end-Dec16 (end-Dec15: PKR 30,210mln). Debt coverage stands at 7.4times with robust debt payback of 1.7yrs.
- Fatima's plans of investment (~PKR 30bln) in MFC's Greenfield fertilizer complex would raise the debt level. In this regard, Fatima envisages to issue 7-year US dollar denominated bonds with bullet payment falling due in 2023; keeping Fatima's financial risk profile within comfortable ranges.

**RATING RATIONALE**

The ratings reflect strong business profile of the company on the back of diversified product mix. Secure supply of gas from Mari field together with lower feed stock price (under fertilizer policy – 2001 up till July'2021), represents inherent strengths of the company compared to peers. Overall capacity utilization continued to exceed 100% (previously: 90% - 98%) based on ammonia debottlenecking. Efficiency in fuel consumption was also achieved with the installation of Waste Gas Boiler in April'16. Gross margins are healthy, with the uptick in off takes post subsidy announcement. The company faces competition from peers amidst supply surplus situation in the country, mainly on the back of improved gas situation in the country; experiencing huge inventory pile up of urea. The pending risk is being managed through allowing exports. Another risk is reduced international pricing, a significant threat to current profits. Fatima's carry over inventories and working capital needs pushed up short term borrowings, rationalized towards Dec 2016. This restricted the incremental benefit on leveraging enabled by retirement of long term borrowings. The ratings are dependent on the company's ability to maintain its cash flows.

**INDUSTRY**

Pakistan fertilizers sector has production capacity of 6.9mln MT of urea, 0.7mln MT of DAP and 2.2mln MT of others. The industry benefits from the latent demand of its major product urea and oligopolistic market conditions. Industry is currently facing supply surplus issues because of increased capacity utilization and lower international urea price.



**Fatima Fertilizer Limited**

BALANCE SHEET	31-Mar-17	31-Dec-16	31-Dec-15	31-Dec-14
	3MCY17	CY16	CY15	CY14
<b>Non-Current Assets</b>	<b>72,812</b>	<b>73,089</b>	<b>73,150</b>	<b>68,867</b>
<b>Investments (Incl. associates)</b>	<b>7,970</b>	<b>7,686</b>	<b>4,806</b>	<b>3,086</b>
Equity	2,238	2,238	2,106	86
Debt	5,732	5,448	2,700	3,000
<b>Current Assets</b>	<b>21,628</b>	<b>29,822</b>	<b>16,833</b>	<b>11,169</b>
Inventory	6,370	6,243	7,003	2,681
Trade Receivables	2,266	2,116	335	448
Others	12,992	21,463	9,495	8,039
<b>Total Assets</b>	<b>102,410</b>	<b>110,597</b>	<b>94,789</b>	<b>83,121</b>
<b>Debt</b>	<b>10,018</b>	<b>13,529</b>	<b>17,042</b>	<b>6,975</b>
Short-term	4,500	8,011	10,229	600
Long-term (Incl. Current Maturity of long-term debt)	5,518	5,518	6,812	6,375
Other shortterm liabilities	10,665	17,658	8,906	7,633
Other Longterm Liabilities	32,079	32,035	28,613	31,756
<b>Shareholder's Equity</b>	<b>49,648</b>	<b>47,374</b>	<b>40,229</b>	<b>36,757</b>
<b>Total Liabilities &amp; Equity</b>	<b>102,410</b>	<b>110,597</b>	<b>94,789</b>	<b>83,121</b>

**INCOME STATEMENT**

<b>Turnover</b>	<b>8,259</b>	<b>33,765</b>	<b>30,226</b>	<b>36,169</b>
Gross Profit	4,508	17,985	17,017	21,461
Other Income	-	420	349	381
Financial Charges	(497)	(2,739)	(2,379)	(3,767)
<b>Net Income</b>	<b>2,274</b>	<b>9,782</b>	<b>9,254</b>	<b>9,258</b>

**Cashflow Statement**

Free Cashflow from Operations (FCFO)	3,668	15,976	14,139	18,666
Net Cash changes in Working Capital	3,516	12,801	12,050	15,126
Net Cash from Operating Activities	(6,633)	18,775	6,463	15,319
Net Cash from Investing Activities	(462)	(5,012)	(7,246)	(2,784)
Net Cash from Financing Activities	(3,622)	(2,958)	130	(11,824)
Net Cash generated during the period	(10,717)	10,805	(654)	711

**Ratio Analysis**

<b>Performance</b>				
Turnover Growth	57%	12%	-16%	8%
Gross Margin	55%	53%	56%	59%
Net Margin	28%	29%	31%	26%
ROE	19%	30%	25%	26%
<b>Coverages</b>				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	2.0	2.3	1.5	1.8
Interest Coverage (x) (FCFO/Gross Interest)	7.4	5.8	5.9	5.0
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Term Borrowings) / FCF)	1.7	1.2	1.7	1.6
<b>Liquidity</b>				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	116	83	85	62
<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	35%	39%	43%	40%

**Fatima Fertilizer Compaany Limited**  
**Facility Upto PKR 10,500,000,000**

<i>Sukuk Amount</i>	10,500,000,000
<i>Disbursement</i>	10,500,000,000
<i>Tenor</i>	5
<i>Grace Period</i>	Nil
<i>Installment Payment Frequency</i>	Half yearly
<i>Notional Cap Rate</i>	25.00%

<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>	<b>V</b>	<b>VI</b>	<b>VII</b>	<b>VIII</b>
<b>Period</b>	<b>Date</b>	<b>Total Rental</b>	<b>Variable Rental</b>	<b>No of Days</b>	<b>Amount of Fixed Rental</b>	<b>Investment Agent's Musharaka Share</b>	<b>Amount of Purchase Price Outstanding</b>
0	29-Dec-16					10,500,000,000	17,493,287,671
1	28-May-17	2,128,767,123	1,078,767,123.29	150	1,050,000,000	9,450,000,000	15,364,520,548
2	28-Nov-17	2,240,958,904	1,190,958,904.11	184	1,050,000,000	8,400,000,000	13,123,561,644
3	28-May-18	2,091,369,863	1,041,369,863.01	181	1,050,000,000	7,350,000,000	11,032,191,781
4	28-Nov-18	1,976,301,370	926,301,370	184	1,050,000,000	6,300,000,000	9,055,890,411
5	28-May-19	1,831,027,397	781,027,397	181	1,050,000,000	5,250,000,000	7,224,863,014
6	28-Nov-19	1,711,643,836	661,643,836	184	1,050,000,000	4,200,000,000	5,513,219,178
7	28-May-20	1,573,561,644	523,561,644	182	1,050,000,000	3,150,000,000	3,939,657,534
8	28-Nov-20	1,446,986,301	396,986,301	184	1,050,000,000	2,100,000,000	2,492,671,233
9	28-May-21	1,310,342,466	260,342,466	181	1,050,000,000	1,050,000,000	1,182,328,767
10	28-Nov-21	1,182,328,767	132,328,767	184	1,050,000,000	-	0
<b>Total</b>		<b>17,493,287,671</b>	<b>6,993,287,671</b>		<b>10,500,000,000</b>		

## CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<b>A1+:</b> The highest capacity for timely repayment.  <b>A1:</b> A strong capacity for timely repayment.  <b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.  <b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.  <b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.  <b>C:</b> An inadequate capacity to ensure timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.	
<b>D</b>	Obligations are currently in default.	

**Outlook (Stable, Positive, Negative, Developing)**  
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

**Rating Watch**  
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

**Suspension**  
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn**  
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information

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Regulatory and Supplementary Disclosure

Name of Issuer
Name of Issue
Sector
Type of Relationship

Fatima Fertilizer Company Limited
Fatima Fertilizer Company Limited | Sukuk | TBI
Fertilizer
Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Table with 4 columns: Dissemination Date, Rating, Outlook, Action. Rows include dates 08-Aug-17, 26-Jan-17, 11-Nov-16 with corresponding ratings and actions.

Instrument Details

Table with 6 columns: Nature of Instrument, Size of Issue (PKR mln), Tenor (yrs), Security, Nature of Assets, Trustee. Row details Sukuk instrument with 5-year tenor and National Bank of Pakistan as trustee.

Amortization Schedule

Refer to Annexure

Related Criteria and Research

Fertilizer Sector | Overview | October 2016

Rating Methodology

Corporate Rating Methodology
Debt Instrument Rating Methodology

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Rating Team Statement

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