The Pakistan Credit Rating Agency Limited

FATIMAFERT LIMITED

ENTITY RATINGS REPORT

	NEW [AUG-17]	PREVIOUS [NOV-16]
Long-Term	A-	A-
Short-Term	A2	A2
Outlook	Stable	Stable

AUGUST 2017

Profile & Ownership

- Fatimafert Limited, operational since 1968, is an unlisted public company
- Fatima Fertilizer Company Limited (Fatima) effective Jul-15 completely takeover the company.
- Fatimafert is engaged in the business of production, purchase and sale of urea (capacity: 445k tonnes per annum). Also imports DAP and markets it in the local market as and when needed.
- The brand of the company "Bubber Sher" is renowned in north region, as the plant is located at the heart of Punjab near Lahore.
- The Fatima Group has interests in textile, sugar, and energy sectors and in addition owns Fatima Fertilizers (capacity: 1,280k tonnes per annum) and Pakarab Fertilizer (capacity: 281k tonnes per annum).

Governance and Management

- Fatimafert's board comprises six members; two represented by Arif Habib, three from Mukhtar Family, and one employee of Fatima Group.
- The chairman of Arif Habib Group, Mr. Arif Habib, an eminent businessman and a seasoned entrepreneur, chairs the company's board.
- Mr. Fawad Ahmed Mukhtar, a seasoned entrepreneur, is the CEO of Fatimafert as well as of Pak Arab and Fatima Fertilizer Limited.

Performance

- Beginning Mar-16, full availability of gas (RLNG) through SNGPL network, enabled the plant to operate at 81% capacity utilization; produced 360k tonnes of urea in CY16 (CY15: 72k tonnes).
- Though improved YoY, the company could sale only 260k tonnes (CY15: 54k tonnes) due to overall supply surplus situation in the country.
- Gross margins (CY16: 8%) are significantly lower than peers, due to (i) higher feed and fuel stock price (USD 8.6/ mmbtu) as compared to peers (feedstock: USD 1/mmbtu, fuel stock: USD 6/mmbtu), and (ii) hefty discounts offered to compete in the market.
- Operating profit (CY16: PKR 200mln) has been reported after two years, however, increased finance cost on its long term debt (PKR 351mln); and short term borrowings (PKR 257mln) pushed the company into net loss of PKR 182mln.
- In 3MCY17, company's halted sales resulted bottom line rested at net loss of 342mln.

Business Strategy

- During CY16, incumbent sponsors had chalked out a comprehensive marketing strategy, aiming to revive the market standing of its strong brand "Bubber Sher"; as the company was at operational halt since 2012.
- However, Owing to supply surplus prevailing industry, plant operations became unfeasible and it's shut down since May17.
- Continue efforts in improving farmer's knowledge through providing technical assistance; conducting awareness seminars, meetings and trainings.
- Synergic benefits with its parent company – Fatima – shall continue to support the operational efficiencies, especially the shared HR cost.

Financial Risk

- During CY16, the company generated free cashflows from operations amounting PKR 468mln, whereby working capital requirements and interest payments were made through short term borrowing of PKR 4bln.
- Working capital requirements surged significantly due to inventory pile up, however, the impact partially covered due to increased trade payables on account of withheld GIDC payments – decision is pending in divisional bench of Sindh high court. This resulted in net requirement of PKR 3,983mln.
- The company carries a sizeable long term debt (PKR 3,722mln), which, however, along with short term borrowings (PKR 5,270mln) keeps the leveraging of the company at 24% (Dec16: 27%) at end-Mar17.
- The company's ability to service debt when the principal repayments fall due in Jul-17 is critical to maintain the financial risk profile of the company.

Rating Rationale

The ratings of Fatimafert reflect the strength of its sponsor - Fatima Fertilizer Limited - offering dynamic business acumen and strong financial flexibility. The incumbent sponsors ensured sustained availability of gas supply of RLNG through SNGPL network. The plant remained operational at 81% capacity, during CY16. This was an interim arrangement; operations are halted since May17. Working capital requirement surged, financed through short term borrowing; in line with the country, mainly on the back of improved gas situation in the country; experiencing huge inventory pile up of urea. Another risk is reduced international pricing, a significant threat to current profits. The entire debt profile of Fatimafert has changed; grace period of 2 years provided fiscal room to the company, while alleviating pending pressure on the financial risk profile of the company. The loan has a corporate guarantee of Fatima, reflecting sponsor's back to the company.

Key Rating Driver

The ratings are dependent on permanent resolution of gas issues (a vital raw material) facing Fatimafert core operations through a long term arrangement. Meanwhile, any significant decline in coverages or deterioration in the perceived group's ability to manage its financial profile would be negative.

Industry Snapshot

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 urea supply surplus due to low off takes; uncertain pricing and low farmers economics. Another challenge is low international urea prices making exports unfeasible.

PKR mln

Fatimafert Limited

BALANCE SHEET	31-Mar-17	31-Dec-16	31-Dec-15	31-Dec-14
	3MCY17	CY16	CY15	CY14
Non-Current Assets	**13,933**	**13,999**	**14,407**	**1,865**
Investments	**-**	**-**	**-**	**6,206**
Equity	-	-	-	6,206
Debt	-	-	-	-
Current Assets	**13,182**	**13,269**	**7,835**	**1,331**
Inventory	3,564	3,068	75	61
Trade Receivables	177	601	191	0
Others	9,441	9,600	7,570	1,270
Total Assets	**27,116**	**27,268**	**22,242**	**9,402**
Debt	**9,736**	**8,789**	**4,754**	**5,192**
Short-term	5,270	4,323	288	-
Long-term (Inlc. Current Maturity of long-term debt)	4,466	4,466	4,466	5,192
Other shortterm liabilities	2,322	3,062	1,587	905
Other Longterm Liabilities	3,440	3,458	3,787	319
Shareholder's Equity	**11,617**	**11,959**	**12,114**	**2,985**
Total Liabilities & Equity	**27,116**	**27,268**	**22,242**	**9,402**
INCOME STATEMENT				
Turnover	**2,134**	**8,631**	**2,419**	**3,670**
Gross Profit	(90)	710	191	274
Other Income	0	14	18,407	986
Financial Charges	(157)	(627)	(523)	(768)
Net Income	**(342)**	**(182)**	**17,904**	**280**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	(172)	468	249	(5)
Net Cash changes in Working Capital	(1,006)	(3,983)	329	360
Net Cash from Operating Activities	(1,412)	(4,134)	162	436
Net Cash from InvestingActivities	(7)	(16)	18,645	1,409
Net Cash from Financing Activities	947	4,167	(18,457)	(1,471)
Net Cash generated during the period	(256)	(256)	(256)	(256)
Ratio Analysis				
Performance				
Turnover Growth	1717.8%	256.7%	-34.1%	75.8%
Gross Margin	-4.2%	8.2%	7.9%	7.5%
Net Margin	-16.0%	-2.1%	740.0%	7.6%
ROE	0.0%	-6.1%	0.0%	9.4%
Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+Uncovered STB)	-0.5	0.7	0.2	0.0
Interest Coverage (X) (FCFO/Gross Interest)	-4.4	0.7	0.5	0.0
Debt Payback (Years) (Total Debt (excluding Covered Short Term Borrowings) / F	-13.1	18.8	19.1	-784.2
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	227.7	-13.5	-58.9	19.8
Capital Structure (Total Debt/Total Debt+Equity)	24.3%	27.2%	26.9%	57.0%

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.

LONG TERM RATINGS

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.
AA+ AA AA-	**Very high credit quality.** 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.
A+ A A-	**High credit quality.** 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.
BBB+ BBB BBB-	**Good credit quality.** 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.
BB+ BB BB-	**Moderate risk.** 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-	**High credit risk.** 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.
CCC CC C	**Very high credit risk.** 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.
D	Obligations are currently in default.

SHORT TERM RATINGS

A1+: The highest capacity for timely repayment.

A1:. A strong capacity for timely repayment.

A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.

A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

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 surveill the opinion due to lack of requisite information