The Pakistan Credit Rating Agency Limited

Rating Report

Fatimafert Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Aug-2019	A-	A2	Stable	Maintain	YES
28-Feb-2019	A-	A2	Stable	Maintain	YES
05-Nov-2018	A-	A2	Stable	Maintain	-
08-Aug-2017	A-	A2	Stable	Maintain	-
11-Nov-2016	A-	A2	Stable	Maintain	-
13-Nov-2015	A-	A2	Stable	Maintain	-
10-Jun-2015	A-	A2	Stable	Maintain	-
10-Jun-2014	A-	A2	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings of Fatimafert reflect the strength of its sponsor - Fatima Fertilizer Company Limited - offering dynamic business acumen and strong financial flexibility. Fatimafert's plants remained idle for most of the period CY18 due to suspension of gas. The pressure released followed by revival of closed plants at subsidized rates in the last quarter of CY18 and has been contributing towards the country's total Urea production by ~5%. Fatimafert plants resumed to life Sept'18 and operating since then, where it operated for only 85 days in the entire CY17. Despite the favorable domestic demand/supply scenario in the market, continued gas challenges overshadowed the overall company's operations. The Company's financial profile suffered due to the country's current economic downturn - added more strain. Eyeing for a sustainable yet value adding business profile, a group level business strategy has been laid out as per which Fatima Fertilizer Company Limited (Fatima) is merging Fatimafert Limited (its wholly owned subsidiary) with and into itself. The General body of the Company in their Extra Ordinary General Meeting has approved the scheme of amalgamation, as approved by the board, subject to fulfilling all legal requirements. The process of amalgamation is expected to close in short horizon.

The ratings are kept under 'Rating Watch' in anticipation of merger with Fatima Fertilizer Company Limited. The Company is expected to completely dissolve once regulatory approvals are sought.

Disclosure	
Name of Rated Entity	Fatimafert Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Crtieria_LT ST Relationship_FY19(Jun-19)
Related Research	Sector Study | Fertilizer(Jan-19)
Rating Analysts	Raniya Tanawar | raniya.tanawar@pacra.com | +92-42-35869504

Profile

Legal Structure Fatimafert Limited (herein referred to as "Fatimafert" or "the company"), operational since 1968, is an unlisted public company.

Background Fatimafert was incorporated as a result of demerger from its parent Company; Dawood Hercules Chemicals Limited, named DH Fertilizers Limited. The demerger was approved by Lahore High Court, making it effective as of July 2010. Beginning Jul-15, the management control of the company has been acquired by Fatima Fertilizer Limited (Fatima), along with 100% stake. The name was changed to FatimaFert Limited on 9th December, 2015.

Operations Fatimafert is engaged in the business of production, purchase and sale of fertilizers. The registered office of Fatimafert is situated in Lahore, with a plant area of 228 acres and nameplate capacity of 445,500 MT per annum (1,350 MTPD), Fatimafert manufactures and markets urea under the brand name "Bubber Sher". DAP is imported and sold in the local market under the same brand. The company also markets Anhydrous Ammonia, excess ammonia produced as intermediary product.

Ownership

Ownership Structure Fatimafert is a wholly owned subsidiary of Fatima Fertilizer Company Limited (FFCL), the holding company.

Stability Profound ownership structure is denoted by strong conglomerates, having a stable share in the company since long.

Business Acumen Fatima Fertilizer Company is one of the prominent names in the fertilizer sector, having share in the company for a considerable time period, representing strong business profile.

Financial Strength Whether monetary or operational, support from the parent company proves to be inevitable

Governance

Board Structure The composition of FatimaFert’s board is kept similar to Fatima’s board; majority of the board members are common in both companies. Fatimafert’s board comprises six members; two represented by Arif Habib, three from Mukhtar Family, and one employee of Fatima Group.

Members’ Profile Chairman of the Company’s board, is the chairman of Arif Habib Group Mr. Arif Habib, Possessing more than four decades of experience, he is a wellknown business professional of the country.

Board Effectiveness Formally, seven meetings have been convened throughout the period under review. The board has two committees namely Human Resource and Remuneration Committee and Board Audit Committee, witnessing strong participation by the board members

Financial Transparency The external auditors of the company is Deloitte Yousaf Adil, Chartered Accountants rated ‘A’ on the SBP panel, have expressed an unqualified opinion on the financial statements for the year Ended Dec, 2017 (Dec'18 Audited Accounts not yet finalized).

Management

Organizational Structure Fatimafert beholds a strong organizational structural with segregated departments with established real time management systems. Management Team of Fatimafert has a mutually collaborated management team with Fatima Fertilizer. Mr. Fawad Ahmed Mukhtar, a seasoned entrepreneur, is the CEO of Fatimafert as well as of Pak Arab and Fatima Fertilizer. Key management personnel include sponsor directors (Mukhtar brothers) and an experienced individual (Mr. Abad Khan) deploying his services to the group since inception.

Management Team Fatimafert does not follow a regime of formal management committees

Effectiveness Fatimafert does not follow a regime of formal management committees

MIS Fatimafert has an upheaved integrated IT structure in place. Complete support by the IT division of Fatima Fertilizer Limited, results in a timely reporting framework.

Control Environment The Company has a smooth trail of business processes supported by its parent company Fatima Fertilizer.

Business Risk

Industry Dynamics The fertilizer industry is a major part of the agriculture & allied sector of the country. The production capacity consists of 7.1mln MT of Urea and CAN and 1.7mln MT of DAP, NP and NPK. The fertilizer industry benefits from the significant demand of its major product, urea. The industry has been facing immense pressure not to pass the inflation/enhanced input cost due to price fixation by the Government, owing to subsidy regimes.

Relative Position Fatimafert had been significantly contributing in Urea market till end CY17. Later on, the Company was under the radar of prevailing gas curtailment issues, along with few other fertilizer players. Subsequently, company lost its Urea market share. The spell of gas pressure got off from Sept’18 onwards when the government decided to revive fertilizer plants at subsidized gas rates and since then contributing~ 5% in the country's overall Urea production . Keeping in view, the market factors and part of strategic plan, sponsors of the company decided to merge Fatimafert with its parent company - Fatima Fertilizer. Thus the entire capacity of 445,500 MT per annum will be transferred to FFCL.

Revenues From CY16 onwards, Fatimafert’s topline continued to face volatility trend. Despite the revival of Fatimafert's plant company's topline witnessed a decline trend. Company earned a revenue of PKR~5.5bln in CY18 as against PKR~7bln in CY17 presenting a drop of 31%. Discontinuation of subsidy from the Govt was another factor that painted over the company's topline.

Margins Margins continue to be depressed since CY16. Dip in the topline during CY18 kept the overall margins strained, thereby gross margins for the period CY18 remained negative; -15% (CY17: -21%). The impact trickled down to bottom line, adding more pressure to it. Consequently, the company’s net loss clocked in at PKR~1.3bln in CY18 (CY17: PKR~1.2bln), in absolute terms.

Sustainability Sponsor support continues to be a major catalyst for the company’s sustainability. Fatima Fertilizer came to rescue to end the continuous woes of the business. The merger of Fatimafert with Fatima has been on cards since its inception, hence, the process of amalgamation is expected to close in short horizon, subject to fulfilling all legal requirements.

Financial Risk

Working Capital Previously, closure of Fatimafert’s plant hampered the operations significantly. Hiked payables and high Inventory levels constituting DAP purchases mainly, is an addition to prevailing woes of the business operational cycle. The entire net working capital requirement of the company is supported through short term borrowings; which stood at PKR~5bln in 9MCY18 (CY17: PKR~3bln), thereby raising the overall debt level.

Coverages In CY18, as the company's swelled loss shrunk; it managed to return to positive free cashflows from operation, (FCFO): PKR~126mln (CY17: PKR -1.8bln). Despite struggling cashflows, the company managed to payoff PKR~1.5bln in CY18. It has a high quantum of short term borrowings standing at PKR~3.5bln to keep its working capital management afloat until the finalization of merger.

Capitalization The company's financial profile is heavily supported by its parent company. During CY17, Fatimafert entered into a Musharaka agreement (Shirkat-ul-Milk) for long term finance facility of PKR~4.5bln at KIBOR + 1.5% with a grace period of 2 years. The loan is secured against corporate guarantee of the holding company; Fatima, and further secured against plant and machinery of Fatima and the first drawdown (PKR~1.5bln) of this began in CY18. This arrangement provides much needed back to the financial risk profile of Fatimafert.

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Financial Summary
PKR mln

Fatimafert Limited	Dec-18	Dec-17	Dec-16
Fertilizer	12M	12M	12M
A BALANCE SHEET			
1 Non-Current Assets	19,357	19,616	13,999
2 Investments	-	-	-
3 Related Party Exposure	23	14	5,907
4 Current Assets	3,908	3,624	7,362
a Inventories	*1,072*	*394*	*3,068*
b Trade Receivables	*167*	*134*	*601*
5 Total Assets	23,289	23,253	27,268
6 Current Liabilities	4,534	2,501	3,062
a Trade Payables	*3,065*	*2,405*	*2,924*
7 Borrowings	6,482	7,582	8,789
8 Related Party Exposure	35	48	-
9 Non-Current Liabilities	2,914	2,434	3,458
10 Net Assets	9,325	10,689	11,959
11 Shareholders' Equity	9,325	10,689	11,959
B INCOME STATEMENT			
1 Sales	5,346	7,759	8,631
a Cost of Good Sold	*(6,157)*	*(9,410)*	*(7,922)*
2 Gross Profit	(811)	(1,651)	710
a Operating Expenses	(274)	(332)	(510)
3 Operating Profit	(1,085)	(1,983)	200
a Non Operating Income or (Expense)	*20*	*21*	*29*
4 Profit or (Loss) before Interest and Tax	(1,065)	(1,962)	229
a Total Finance Cost	*(705)*	*(654)*	*(627)*
b Taxation	*434*	*1,383*	*216*
6 Net Income Or (Loss)	(1,336)	(1,233)	(182)
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*126*	*(1,798)*	*468*
b Net Cash from Operating Activities before Working Capital Changes	*(535)*	*(2,446)*	*(151)*
c Changes in Working Capital	*1,828*	*3,200*	*(3,983)*
1 Net Cash provided by Operating Activities	1,294	754	(4,134)
2 Net Cash (Used in) or Available From Investing Activities	(36)	(9)	(16)
3 Net Cash (Used in) or Available From Financing Activities	(1,100)	(1,207)	4,167
4 Net Cash generated or (Used) during the period	158	(462)	16
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	-31.1%	-10.1%	--
b Gross Profit Margin	-15.2%	-21.3%	8.2%
c Net Profit Margin	-25.0%	-15.9%	-2.1%
d Cash Conversion Efficiency (EBITDA/Sales)	-13.8%	-21.1%	6.4%
e Return on Equity (ROE)	-13.4%	-10.9%	-1.6%
2 Working Capital Management			
a Gross Working Capital (Average Days)	60	99	146
b Net Working Capital (Average Days)	-126	-27	54
c Current Ratio (Total Current Assets/Total Current Liabilities)	0.9	1.4	2.4
3 Coverages			
a EBITDA / Finance Cost	-1.1	-2.6	0.9
b FCFO / Finance Cost+CMLTB+Excess STB	0.0	-0.4	0.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-13.2	-2.7	-31.8
4 Capital Structure (Total Debt/Total Debt+Equity)			
a Total Borrowings / Total Borrowings+Equity	41.0%	41.5%	42.4%
b Interest or Markup Payable (Days)	0.0	0.0	0.0
c Average Borrowing Rate	9.4%	7.6%	9.0%

#	Notes
L48	The sales growth for the quarter hass been annualised
Row19	Borrowings includes CMLTD, L.T borrowings, S.T borrowings and Debt instruments (if any)
-	-

Rating Scale | Corporate

2019

Credit Rating Scale & Definitions

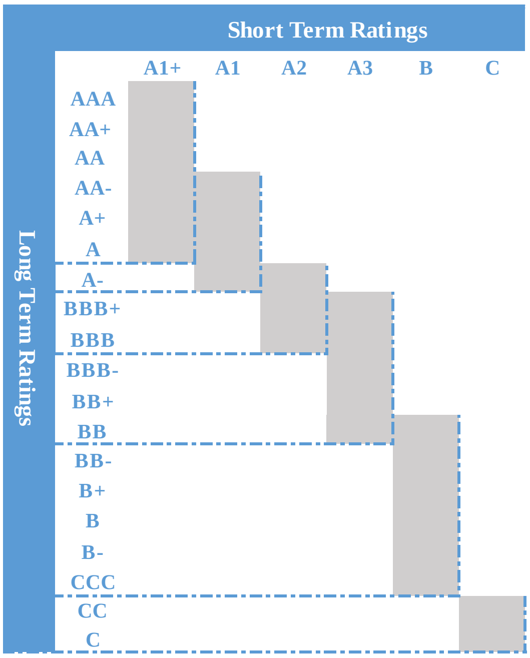
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
Proprietary Information