The Pakistan Credit Rating Agency Limited

Rating Report

Fatima Fertilizer Company Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
24-Jul-2024	AA+	A1+	Stable	Maintain	-
24-Jul-2023	AA+	A1+	Stable	Maintain	-
20-Jan-2023	AA+	A1+	Stable	Upgrade	-
25-Jan-2022	AA	A1+	Stable	Upgrade	-
30-Jul-2021	AA-	A1+	Stable	Maintain	-
19-Aug-2020	AA-	A1+	Stable	Maintain	-
21-Aug-2019	AA-	A1+	Stable	Maintain	-
19-Feb-2019	AA-	A1+	Stable	Maintain	-
01-Nov-2018	AA-	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect Fatima Fertilizer Company Limited's ('Fatima' or 'the Company') association with strong business Groups, Fatima Group and Arif Habib Group. The Arif Habib Group has successfully established thriving businesses across financial services, fertilizers, cement, steel, and real estate. Meanwhile, Fatima Group has a diverse portfolio encompassing fertilizers, sugar, textiles, commodities trading, mining, and energy sectors. The assigned rating takes into account the good governance framework, strong control environment, qualified and experienced management team. The ratings assigned to the Company also 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 the strategic importance of the fertilizer sector for the Country. In 2023, the domestic fertilizer market remained steady, with urea demand at ~6.6MT, driven by improved farm economics and a 40% price discount compared to imports. Urea production rose to 6.4MT, while the domestic DAP industry saw a 34% increase, reaching 1.5MT, due to better agronomics and increased farmer liquidity during the Rabi season. The Company holds the leading market share in NP and CAN fertilizers, commanding 42% of the overall market. The Company is committed to position ‘Sarsabz’ as the most premium fertilizer brand in the market and helping to lead the pursuit for a ‘Sarsabz Pakistan’. During CY23, the Company's topline, mainly comprising of NP, (48%), Urea (23%) and CAN (18%). The sales revenue for the year jumped up by 47% over last year on the back of remarkable volumetric growth of 39% in NP through effective market penetration strategies and product availability. During CY23, the Company has maintained noteworthy margins and profitability owing to efficient operations. The Company is also investing heavily in collaboration with other industry players to ensure gas supply at sustainable pressure for its production plant this will bodes well for business risk profile. Fatima is actively planning to participate in the corporate farming initiative to drive agricultural transformation of Pakistan which will not only provide opportunity for vertical growth to the Company but will also be instrumental in revival of Pakistan’s agricultural economy. The Company has continuously invested in optimizing its production plants and reaps the benefits of having increased utilization and higher run time of its production facilities. Subsequent to the Company's sterling financial performance, income from the trading portfolio provides limited support to the Company's bottom line. At CY23, the Company’s financial profile is established on a low leveraged capital structure, of ~7.8%, strong coverages, and efficient management of working capital. Ratings draw comfort from business acumen from the sponsors and strong governance framework.

The ratings are dependent on the Company's ability to sustain its margins and healthy coverages while maintaining cushion and adherence to strong financial discipline. Substantial deterioration in margins and profitability would adversely impact the ratings.

Disclosure

Name of Rated Entity	Fatima Fertilizer Company Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-24),Methodology | Corporate Rating(Jul-23)
Related Research	Sector Study | Fertilizer(Jan-24)
Rating Analysts	Muhammad Atif Chaudhry | Atif.Chaudhry@pacra.com | +92-42-35869504

Profile

Legal Structure Fatima Fertilizer Company Limited ('Fatima Fertilizer' or 'the Company') was incorporated in Dec-03 as a public company under the repealed Companies Ordinance, 1984 (now Companies Act. 2017). The Company got listed on the Pakistan Stock Exchange (PSX) in 2010.

Background The Company was formed by a joint venture between two major business groups in Pakistan namely, Fatima Group and Arif Habib Group. The Company's first venture, a fully integrated fertilizer production facility, was initiated in 2006 in Sadiqabad, Punjab. The facility commenced operations in 2011. The Company later acquired productions plants in Sheikhupura and Multan.

Operations The Company is primarily involved in manufacturing and selling variants of fertilizers and chemicals. The production facilities are all located in Punjab, Pakistan. The Company mainly produces Urea, CAN, and NP. In CY23, the Company's combined actual production stood at 2,539mln MT (CY22: 2,829mln MT) and capacity utilization stood at maximum (CY23: ~99%).

Ownership

Ownership Structure Fatima Group holds (59%) of the total shares, with a significant portion (25.2%) through associated companies. Additionally, Fatima Group holds (33.8%) through Fazal Group, Mian Naseem, and the Mian Mukhtar family. Arif Habib Group owns (35.79%), with (16.56%) through associated companies and (19.23%) through individual holdings. The general public holds the remaining (5%).

Stability Ownership of the business is stable. The second generation has been inducted into the business as well.

Business Acumen The sponsors have very strong business acumen. Fatima Group is one of the leading corporate groups in Pakistan, engaged in trading of commodities, manufacturing of fertilizers, textiles, sugar, mining and energy. Arif Habib Group ranks amongst the prominent financial services groups and holds interests in financial advisory, investment management, commercial banking, commodities, private equity, cement and fertilizer industries.

Financial Strength The Company's sponsors, Fatima Group and Arif Habib Group, have substantial financial strength.

Governance

Board Structure The Company's Board comprises of seven members. The Board includes two members each from Fatima Group and Arif Habib Group, CEO of the Company and two independent directors.

Members' Profile The Board's Chairman, Mr. Arif Habib, has very strong business acumen and is also the Chief Executive Officer of Arif Habib Corporation Limited, the holding company of Arif Habib Group.

Board Effectiveness The Board is assisted by the Board Audit Committee, Human Resource and Remuneration Committee, and Nomination and Risk Management Committee. The committees meet on need basis and minutes are adequately documented.

Financial Transparency The External Auditors of the Company are Yousuf Adil, Chartered Accountants rated 'A' on the SBP panel. They have expressed an unqualified opinion on the financial statements for the year ended Dec-23.

Management

Organizational Structure The organizational structure has been optimized as per the operational needs. The Company operates through eight functions: Production, Finance, Marketing and Sales, Internal Audit, Business Development, Administration, Supply Chain, and Human Resource. All functional managers' report to the Company's CEO except the Head of Audit who reports to the Audit Committee, and HR Director who reports to HR & Remuneration Committee.

Management Team Mr. Fawad Ahmed Mukhtar is the CEO of the Company. He has 30 years of experience in industrial management. He is assisted by a team of experienced professionals. Mr. Asad Murad is the Chief Operating Officer of the Company and has over 26 years of experience.

Effectiveness Management's effectiveness and efficiency is ensured through the presence of Executive Committee, Project Review Committee, and Enterprise Risk Management Committee.

MIS The Company uses an upgraded Oracle based ERP system which has been optimized as per the needs of the business.

Control Environment To ensure operational efficiency, the Company has setup an internal audit function, which implements and monitors the policies and procedures of the Company.

Business Risk

Industry Dynamics In 2023, the domestic fertilizer market remained steady with urea demand holding at ~6.6MT (MY22: 6.6MT). The consistent offtake was driven by improved farm economics and the availability of urea at a discount compared to imported prices as of Dec23. The price of imported urea per bag stood at Rs. 6,036, while the local fertilizer price was Rs. 3,596 per bag, translating into a substantial discount of 40%. The industry also experienced a boost in production, with total urea output reaching 6.4MT (FY22: 6.3MT). The remaining market demand was met through manufacturers' inventories. The domestic DAP industry saw significant growth, to 1.5MT(FY22: 1.15MT), marking a 34% year-on-year increase. This growth was primarily due to better agronomics and increased liquidity for farmers during the Rabi season.

Relative Position Fatima is a key player in the fertilizer sector, holding a 15% market share in urea. Additionally, Fatima commands a substantial 42% share in overall sales of the industry.

Revenues The Company's revenue comprises Urea (~23%), NP (~48%), CAN (~18%), DAP (~9%), and Others (~2%). During CY23, the Company's revenue witnessed similar trend and clocked in at PKR 232bln. up by ~47%, compared to the same period from the prior year (CY22: PKR 158bln). The increase is mainly due to increase in the prices of fertilizer products and slightly increase in volume has been observed.

Margins The Company's gross margin declined to approximately 31.1% (CY22: ~33.3%) due to higher gas prices. The operating margin stood at around 23% (CY22: ~24%) due to an increase in operational costs. Conversely, Due to surge in fertilizer prices and volumes, the Company's net income rose and stood at PKR 22 billion (CY22: PKR 14 billion). Subsequently, the net profit margin reached 9.6% (CY22: 9.1%). The Company is actively exploring alternative sources of gas with the GoP to mitigate the risk of depleting reserves.

Sustainability The Company is actively evaluating alternate sources of gas with the GoP to mitigate the risk of depleting reserves.

Financial Risk

Working Capital The Company's inventory days decreased to 61 days during CY23 (CY22: 72 days) due to efficient inventory management and streamlined supply chain operations. Receivable days witnessed slight decrease to 18 days (CY22: 26 days) that depict Improved receivables management and faster collection processes. Payable days witnessed similar trend and decreased to 33 days (CY22: 43 days), Reduced payable days may signal that the company has an ample amount of cash flow to pay its suppliers. Subsequently, the overall net cash cycle of the Company stood at 45 days in CY23 (CY22: 52 days). The Company's short-term trade leverage and short-term total leverage stood at ~56% and ~33% as at CY23 indicating room to borrow against trade assets and total current assets, respectively

Coverages Free cash flows of the Company stood at ~PKR 49.3bln during CY23 (CY22: ~PKR 30.5bln) The Company's finance cost stood at PKR 3.5bln during CY23 (CY22: PKR 2.5bln) increasing slightly amidst higher interest rates The finance costs are expected to be lower in the future as the company has repaid a significant portion of its debt. Subsequently, overall coverages remained strong due increase in free cash flows resulted in the interest coverage ratio (CY23: 14.1x, CY22: 12x) and Debt Coverage Ratio (CY23: 8.5x, CY22: 5.1x). Moreover, debt payback period stood at 0.2x (CY22: 0.5x).

Capitalization The Company has low leveraging stood at ~7.8% as at CY23 (CY22: 21%). Total debt of the Company decreased to ~PKR 8.2bln as at CY23 (CY22: ~PKR 27bln). The Company has repaid a significant portion of its debt. Going forward, the capital structure of the Company is expected to remain strong owing to high equity-base (CY23: PKR 118.3bln, CY22: PKR 107bln).

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Fatima Fertilizer Company Limited Listed Public Limited	Mar-24 3M Management	Dec-23 12M Audited	Dec-22 12M Audited	Dec-21 12M Audited
A BALANCE SHEET				
1 Non-Current Assets	111,372	114,257	120,763	109,550
2 Investments	16,690	20,676	5,941	3,018
3 Related Party Exposure	13,718	13,059	7,920	10,794
4 Current Assets	95,255	82,775	96,471	61,531
a Inventories	*44,595*	*32,415*	*44,837*	*18,332*
b Trade Receivables	*11,071*	*9,507*	*13,332*	*9,654*
5 Total Assets	237,035	230,768	231,095	184,893
6 Current Liabilities	71,694	70,902	66,151	45,528
a Trade Payables	*13,467*	*14,172*	*28,158*	*12,973*
7 Borrowings	8,229	8,231	27,070	15,404
8 Related Party Exposure	-	1,824	1,789	-
9 Non-Current Liabilities	30,589	31,450	28,995	23,697
10 Net Assets	126,522	118,361	107,089	100,263
11 Shareholders' Equity	126,522	118,366	107,089	100,263
B INCOME STATEMENT				
1 Sales	65,247	232,755	158,797	112,488
a Cost of Good Sold	*(38,320)*	*(160,345)*	*(106,337)*	*(69,404)*
2 Gross Profit	26,927	72,409	52,460	43,084
a Operating Expenses	*(11,888)*	*(18,630)*	*(13,975)*	*(8,948)*
3 Operating Profit	15,039	53,780	38,486	34,136
a Non Operating Income or (Expense)	*1,644*	*(1,538)*	*(4,664)*	*(3,944)*
4 Profit or (Loss) before Interest and Tax	16,683	52,242	33,822	30,192
a Total Finance Cost	*(738)*	*(4,640)*	*(3,303)*	*(2,007)*
b Taxation	*(7,789)*	*(25,345)*	*(16,074)*	*(9,711)*
6 Net Income Or (Loss)	8,156	22,257	14,445	18,474
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*16,123*	*49,394*	*30,513*	*34,500*
b Net Cash from Operating Activities before Working Capital Changes	*15,119*	*44,378*	*27,765*	*32,537*
c Changes in Working Capital	*(5,770)*	*9,445*	*(19,518)*	*(6,239)*
1 Net Cash provided by Operating Activities	9,349	53,824	8,247	26,299
2 Net Cash (Used in) or Available From Investing Activities	2,832	(20,609)	(14,986)	(8,359)
3 Net Cash (Used in) or Available From Financing Activities	(1,680)	(23,232)	(2,921)	(11,153)
4 Net Cash generated or (Used) during the period	10,501	9,982	(9,660)	6,787
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	12.1%	46.6%	41.2%	57.8%
b Gross Profit Margin	41.3%	31.1%	33.0%	38.3%
c Net Profit Margin	12.5%	9.6%	9.1%	16.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	15.9%	25.3%	6.9%	25.1%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	26.6%	19.7%	13.9%	19.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	68	78	99	75
b Net Working Capital (Average Days)	49	45	52	43
c Current Ratio (Current Assets / Current Liabilities)	1.3	1.2	1.5	1.4
3 Coverages				
a EBITDA / Finance Cost	37.4	18.0	16.4	21.5
b FCFO / Finance Cost+CMLTB+Excess STB	15.2	8.5	5.1	8.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.1	0.2	0.5	0.3
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	6.1%	7.8%	21.2%	13.3%
b Interest or Markup Payable (Days)	36.4	33.4	131.1	64.0
c Entity Average Borrowing Rate	13.7%	17.2%	13.8%	9.9%

Credit Rating

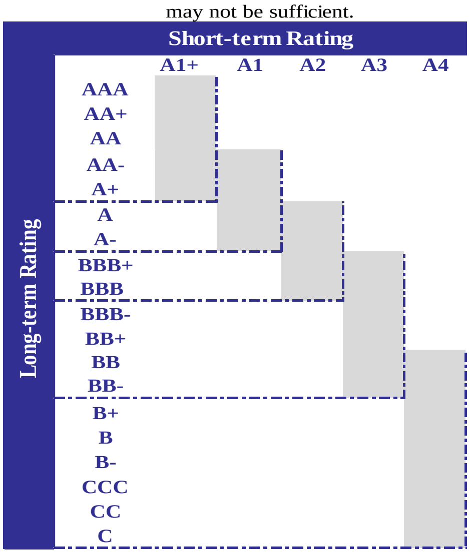
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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 Rating

Scale	Definition
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
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

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 | Clause 11-(A)(p).
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information