



## Rating Action

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## Analyst

Mahina Majid  
(+92-42-35869504)  
mahina.majid@pacra.com  
www.pacra.com

## Applicable Criteria and Related Research

- Fertilizer - Viewpoint | Oct-15
- Corporate Rating Methodology

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## PACRA assigns Entity Ratings to Fauji Fertilizer Company Limited

The Pakistan Credit Rating Agency (PACRA) has assigned a long-term entity rating of "AA" (**Double A**) and short-term entity rating of "A1+" (**A One Plus**) to Fauji Fertilizer Company Limited (FFCL). These ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

The rating reflects FFC's dynamic business profile and strong financial position while incorporating the sound financial strength of Fauji Group. FFC is one of the largest players in the fertilizers market. The strong business/professional footprint of FFC has enabled the company to build an impeccable brand in Pakistan with "Sona" being a household name in the farmer community. The production facilities are secured by uninterrupted supply of gas from Mari field, representing inherent commercial strengths of the company thereby ensuring sustainable business volumes for FFC. Urea market itself has strong fundamentals historically; demand has exceeded supply. The only challenge is parity with international prices; yet FFC is committed towards costs economization for sustained returns for the company.

FFC carries a sizable book of diversified investments, which has been developed to offer sustainable returns to its stakeholders. FFC recently diversified into the financial sector by acquiring a sizable stake in Askari Bank (43.15%), which has a distinct presence in Pakistan's financial sector: dividend stream from these investments compliments FFC's ratings. FFC is eyeing expansion in fertilizer (outside Pakistan) and mining operations; leveraging associated with new projects will require oversight and close attention.

**About the Company:** Fauji Fertilizer Company Ltd (FFC), was incorporated in 1978 and commenced operations with a production facility of a single urea plant having a capacity of 570 thousand tonnes, which now stands increased to 3 plants with an annual production of over 2.4 million tonnes per annum, ensuring sustained supply of urea to the farmers. The Company is quoted on the Pakistan Stock Exchange and has been ranked amongst the KSE's top 25 companies for over 20 years besides securing first position for 4 consecutive years since 2010. The Company had a combined market share of 60% in 1HY16. FFC has diversified its risk portfolio by investing in various sectors amounting to PKR 21bln. Fauji Foundation (FF) - a charitable trust - is the majority shareholder (44.35%) of the Company. Fauji Group is amongst the largest business conglomerates in Pakistan, with investments in various sectors including energy, gas supply, fertilizer, cement and food, which "Earns to Serve" for the welfare of ex-servicemen and their families.

The thirteen member board of FFC comprises of seven representatives of FF, one member each of NIT and Government of Pakistan, while four are independent members. The CEO, Lt Gen Shafqaat Ahmed, HI-(M) Retired, joined the Board in March '15, and is also the CEO of the two subsidiaries of FFC; Fauji Fresh N Freeze Ltd and FFC Energy Ltd. He is supported by strong professional and experienced management team having long association with the Company.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.