PACRA

The Pakistan Credit Rating Agency Limited

FATIMA FERT LIMITED

ENTITY RATINGS REPORT

	NEW [NOV-16]	PREVIOUS [NOV-15]
Long-Term	A-	A-
Short-Term	A2	A2
Outlook	Stable	Stable

REPORT CONTENTS

NOVEMBER 2016

Profile & Ownership

- Fatima Fert Limited (Formerly DH Fertilizer Limited), operational since 1968, is an unlisted public company
- Renamed in Dec-15, after complete take over by Fatima Fertilizer Company Limited (Fatima) effective Jul-15
- Fatima Fert is engaged in the business of production, purchase and sale of urea (capacity: 445k tonnes per annum). Also imports DAP and markets 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

- Fatima Fert'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 Fatima Fert 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 above 100% capacity utilization; produced 271k tonnes of urea (9M15: 72k tonnes)
- Though improved YoY, the company could sale only 121k tonnes (9M15: 54k tonnes) due to overall supply surplus situation in the country coupled with tough competition from peers
- Gross margins (9M16: 16%) are significantly lower than peers, due to (i) higher feed and fuel stock price (USD 7.7/ mmbtu) as compared to peers (feedstock: USD 1/mmbtu, fuelstock: USD 6/mmbtu), and (ii) hefty discounts offered to compete in the market
- Operating profit (9M16: PKR 345mln) has been reported after a glut of two years, and are sufficient to absorb finance cost on its long term debt (PKR 266mln); however surged short term borrowing related finance cost (PKR 148mln) pushed the company into net loss of PKR 45mln

Business Strategy

- Incumbent sponsors have 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
- 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 9M16, the company generated free cashflows from operations (FCFO: PKR 569mln) sufficient to service debt cost (PKR 455mln). The debt repayment is scheduled to start from Jul-17, thereby easing the debt service coverage ratio above comfortable level in the short run
- 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 – stay order has been obtained against GIDC Ordinance, 2015. This resulted in net requirement of PKR 3,708mln
- Entire net working capital requirements were financed through short term borrowings, thereby raising the overall debt level
- The company carries a sizeable long term debt (PKR 4,466mln), which, however, alongwith short term borrowings, keeps the leveraging of the company at 40% at end-Sep16
- The company's ability to service debt when the principal repayments falls due in Jul-17, is critical to maintain the financial risk profile of the company

RATING RATIONALE

The ratings of Fatima Fert 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 has been operational at above 100% capacity, beginning March-16. This is an interim arrangement; the risk of operations halting is still present. Recently, working capital requirement has surged, financed through short term borrowing; in line with industry due to supply surplus situation with inventory pileup. The pending risk needs immediate attention of all stakeholders. Another risk is reduced international pricing, a significant threat to current profits. The entire debt profile of Fatima Fert 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 Fatima Fert 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 offtakes; uncertain pricing and low farmers economics. Another challenge is low international urea prices making exports unfeasible. Margins, though high, are under pressure.

PKR mln

Fatima Fert Limited (Formerly DH Fertilizers Limited)

BALANCE SHEET	30-Sep-16	31-Dec-15	31-Dec-14
	9M16	Annual	Annual
Non-Current Assets	**14,201**	**14,407**	**1,865**
Investments	**-**	**-**	**6,206**
Equity	-	-	6,206
Debt	-	-	-
Current Assets	**15,210**	**7,834**	**1,331**
Inventory	4,332	75	61
Trade Receivables	271	191	0
Others	10,607	7,569	1,270
Total Assets	**29,412**	**22,241**	**9,402**
Debt	**8,005**	**4,754**	**5,192**
Short-term	3,539	288	-
Long-term (Inlc. Current Maturity of long-term debt)	4,466	4,466	5,192
Other shortterm liabilities	5,604	1,587	905
Other Longterm Liabilities	3,735	3,787	319
Shareholder's Equity	**12,069**	**12,114**	**2,985**
Total Liabilities & Equity	**29,412**	**22,242**	**9,402**

INCOME STATEMENT	30-Sep-16	31-Dec-15	31-Dec-14
Turnover	**3,893**	**2,419**	**3,670**
Gross Profit	616	191	274
Other Income	27	-	986
Financial Charges	(426)	(523)	(768)
Net Income	**(45)**	**17,904**	**280**

Cashflow Statement	30-Sep-16	31-Dec-15	31-Dec-14
Free Cashflow from Operations (FCFO)	569	249	9
Net Cash changes in Working Capital	(3,708)	329	360
Net Cash from Operating Activities	(3,594)	162	450
Net Cash from InvestingActivities	(14)	18,645	1,395
Net Cash from Financing Activities	3,251	(18,457)	(1,856)

Ratio Analysis	30-Sep-16	31-Dec-15	31-Dec-14
Performance			
Turnover Growth	620.4%	-34.1%	-24.2%
Gross Margin	15.8%	7.9%	7.5%
Net Margin	-1.2%	740.0%	7.6%
ROE	-1.5%	0.0%	8.7%
Coverages			
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+Uncovered STB)	1.3	0.5	0.0
Interest Coverage (X) (FCFO/Gross Interest)	1.8	0.5	0.0
Debt Payback (Years) (Total Debt (excluding Covered Short Term Borrowings) / FCFO)	10.6	n.m.	n.m.
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	-120.6	-151.9	-55.0
Capital Structure (Total Debt/Total Debt+Equity)	24.0%	17.2%	63.5%

The Pakistan Credit Rating Agency Limited

STANDARD RATING SCALES & 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 or 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**. "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.

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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.

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'.

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, a suspended 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, or e) the entity/issuer defaults.

Regulatory and Supplementary Disclosure

Name of Issuer Fatima Fert Limited (Formerly DH Fertilizer Limited)
Sector Fertilizers
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
11-Nov-16	A-	A2	Stable	Maintain
13-Nov-15	A-	A2	Stable	Maintain
10-Jun-15	A-	A2	Stable	Maintain
10-Jun-14	A-	A2	Stable	Maintain
30-Jun-13	A-	A2	Stable	Maintain
30-Aug-12	A-	A2	Stable	Downgrade

Related Criteria and Research

Rating Methodology: Corporate Rating Methodology
Research: Fertilizer Sector | Overview | October 2016

Rating Analysts

Muneeb Rashid
muneeb.rashid@pacra.com
(92-42-35869504)

Amara Gondal
amara.gondal@pacra.com
(92-42-35869504)

Rating Team Statement

Rating Procedure
Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

Disclaimer

Rating Shopping
PACRA maintains principle of integrity in seeking rating business.
PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public sources we consider to be reliable but its

accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information.

Conflict of Interest
PACRA, the analysts involved in the rating process, and members of its rating committee do not have any conflict of interest relating to the credit rating done by them
The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest
The analysts and members of the rating committees including the external member members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA
The analysts or any of its family members do not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This is, however, not applicable on investment in securities through collective investment schemes. PACRA has established appropriate policies governing investments and trading in securities by its employees
PACRA may provide consultancy/advisory services or other services to any of its clients or to any of its clients' associated companies and associated undertakings that is being rated or has been rated by it. In such cases, PACRA has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities
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 ii) fee mandate - signed with the payer, which can be different from the entity
PACRA ensures that the credit rating assigned to an entity or instrument should 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

Surveillance
PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer
PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so
PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct
PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality
PACRA has framed a confidentiality policy to prevent abuse of the non-public information by its employees and other persons involved in the rating process, sharing and dissemination of the non-public information by such persons to outside parties
Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

Prohibition

Probability of Default (PD)

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