



The Pakistan Credit Rating Agency Limited

PAKARAB FERTILIZERS LIMITED

ENTITY RATING REPORT

INITIAL [OCT-17]		REPORT CONTENTS
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OCTOBER 2017

Profile & Ownership

- Pakarab Fertilizers Limited, incorporated in 1973, as a result of a memorandum signed between the Government of Pakistan and the state of Abu Dhabi.
- The plant site, located in the vicinity of Multan, is home to production facilities for Urea, Ammonia, Nitric Acid, Nitro Phosphate, CAN and CO2 as well as a Co-generation power plant.
- In 2005, Pakarab was privatized and acquired by a consortium of two major business groups in Pakistan namely Fatima Group (FG) and Arif Habib Group (AHG).
- Arif Habib Group ranks amongst the prominent financial services group in Pakistan whereas Fatima Group is one of the leading corporate groups in Pakistan, engaged in trading of commodities, manufacturing of fertilizers, textiles, sugar, mining and energy.

Governance and Management

- Eight member board of directors including the Chief Executive Officer (CEO)
- Directors equally represented by Arif Habib Group and Fatima Group.
- The Chairman, Mr. Arif Habib, is a reputed business professional and also chairs Fatimafert Limited, Fatima Fertilizer Company Limited, Aisha Steel Mills Limited and Javedan Corporation Limited.
- Mr. Fawad Ahmed Mukhtar is the Chief Executive Officer of the Company and possesses vast business acumen spanning over three decades.
- Management team is a balanced blend of highly experienced professionals from the industry having long association with Pakarab Fertilizers Limited.

Performance

- In 2015, Pakarab became operational on Re-gasified Liquid Natural Gas (RLNG); becoming the first fertilizer company on RLNG.
- The company with effect from July 2017, has also started receiving steady gas supply from SNGPL in line with industry players (~35% of it's need).
- With regards to manufactured product mix, NP remains the top selling product followed by CAN and Urea.
- During CY16, the topline of the company decreased by 26%, mainly attributable to (i) decreased prices of fertilizer products along with (ii) reduced sales of the fertilizer products mainly due to increased supply to the market along with higher inventory levels than previous years.
- Finance cost exhibited an increasing trend (CY16: PKR 1,800mln; CY15: PKR 1,677mln) owing to increased borrowing.
- The net loss of Pakarab was recorded at PKR 1,925mln for 2016.

Business Strategy

- Pakarab is engaged in continued efforts in improving farmer's knowledge through providing technical assistance; conducting awareness seminars, meetings and trainings.
- Synergic benefits with the fertilizer companies of Fatima Group shall continue to support the operational efficiencies, especially the shared HR and marketing costs.
- Encouraged by government's commitment to import LNG, Pakarab expects to be able to continue its operations on RLNG for the foreseeable future.
- With the LNG prices witnessing a stable trend as of late, the company aims to translate this effect to the bottom-line.

Financial Risk

- Pakarab's financial structure is stressed due to leveraging and operational halt in the past. Post resumption of operations, financials metrics are expected to improve.
- The business plan envisages fast recovery of all stuck-up receivables including trade debts and taxes.
- The company has re-aligned its working capital needs and short term borrowings. The long term debt would be serviced through operational cash flows and recovery of receivables.
- Pakarab continues to enjoy unwavering sponsors support, however, it intends to repay all the borrowings using its own resources.

RATING RATIONALE

The ratings reflect the strength of the ownership structure of Pakarab: Arif Habib Group and Fatima Group. This strength has been demonstrated in the past both in terms of ongoing support and at the times of stress. The company has a sizeable loan from sponsors, considered as quasi equity. The company's operations were facing challenge due to gas shortage in the country. RLNG provided requisite support and now the company is getting natural gas from the system as well (~35%). The company has a diverse product mix with the ability to make best use of available raw material. The urea industry is facing surplus and the product prices have also come down from historical highs. Pakarab is distinctly placed in this context, given its product mix having a lower proportion of urea. The challenge, nevertheless, remains to offload the products. Margins have come down; but the reduced LNG price is providing cushion. The financial sustainability of the company still drives from stability in operations, continued sponsor support and timely recovery of stuck-up receivables.

KEY RATING DRIVERS

The ratings are dependent on the sustained risk profile of the company, seamless financial discipline in the wake of upcoming debt repayments. For this, continuity of profitable operations is crucial.

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.



Pakarab Fertilizers Limited (PFL)

BALANCE SHEET	30-Jun-17	31-Dec-16	31-Dec-15	31-Dec-14
	1HCY17	CY16	CY15	CY14
Non-Current Assets	42,119	42,153	42,622	43,374
Investments (Incl. Associates)	497	467	405	361
Equity	-	-	-	-
Debt	497	467	405	361
Current Assets	20,871	17,941	22,653	8,992
Inventory	4,477	4,070	7,661	829
Trade Receivables	4,837	2,898	2,624	188
Others	11,557	10,973	12,369	7,975
Total Assets	63,487	60,561	65,680	52,727
Debt	19,009	16,173	20,657	9,365
Short-term	10,332	9,173	17,352	7,637
Long-term (Incl. Current Maturity of Long-Term Debt)	8,677	6,999	3,305	1,727
Other Short-term Liabilities	10,556	9,811	10,992	10,073
Other Long-term Liabilities	12,727	12,569	10,120	12,516
Shareholder's Equity	21,194	22,008	23,911	20,773
Total Liabilities & Equity	63,487	60,561	65,680	52,727

INCOME STATEMENT

Turnover	10,864	16,176	21,920	14,248
Gross Profit	666	(30)	4,568	1,984
Other Income	14	336	(1)	1,034
Financial Charges	(1,032)	(1,800)	(1,677)	(1,626)
Net Income	(813)	(1,925)	2,460	(45)

Cashflow Statement

Free Cashflow from Operations (FCFO)	(257)	(869)	2,690	774
Net Cash changes in Working Capital	(2,264)	3,291	(11,745)	3,533
Net Cash from Operating Activities	(3,456)	807	(10,603)	2,797
Net Cash from Investing Activities	(403)	(207)	50	345
Net Cash from Financing Activities	2,528	5,249	(857)	(1,789)
Net Cash generated during the period	(1,331)	5,849	(11,410)	1,352

Ratio Analysis

Performance

Turnover Growth	97.2%	-26.2%	53.8%	91.8%
Gross Margin	6.1%	-0.2%	20.8%	13.9%
Net Margin	-7.5%	-11.9%	11.2%	-0.3%
ROE	-3.8%	-5.7%	7.3%	-0.1%

Coverages

Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncover)	-0.1	-0.2	0.3	0.1
Interest Coverage (x) (FCFO/Gross Interest)	-0.2	-0.5	1.6	0.5
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Ter	-5.9	-7.4	13.0	-15.8

Liquidity

Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	15.3	-43.0	-26.9	-48.1
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Capital Structure (Total Debt/Total Debt+Equity)	54.8%	55.8%	51.0%	37.3%
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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		SHORT TERM RATINGS
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	A1+: The highest capacity for timely repayment.
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.	A1: A strong capacity for timely repayment.
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.	A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C: An inadequate capacity to ensure timely repayment.
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.	

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.

Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's 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.



Name of Issuer
Sector
Type of Relationship

Pakarab Fertilizers Limited
 Fertilizers
 Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
12-Oct-17	A-	A2	Stable	Initial

Related Criteria and Research

Rating Methodology
 Research:

Corporate Rating Methodology
 Fertilizer Sector | Overview | October 2016

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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.

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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.

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[Probability of Default \(PD\)](#)

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