

RATINGS (NOVEMBER 2009)
FATIMA FERTILIZER COMPANY LIMITED

Entity	New
Long Term	A
Short Term	A1

FINANCIAL DATA

	PKR (mln)		
	Jun-09	Dec-08	Dec-07
Total Assets	48,783	38,098	11,301
Equity	19,844	15,345	7,454
Equity/Total Assets (%)	40.7	40.3	65.9
Net Debt / Equity (%)	122.6	119.1	28.4

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RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect Fatima Fertilizer’s potential low business risk emanating from its entry into the fertilizer sector, mainly characterized by robust demand amidst domestic supply deficit. The company is setting up a fertilizer complex with a diversified product base, catering to growing demand for balanced fertilization. Fatima Fertilizer has an adequate risk management framework to achieve project completion within set targets, and onward smooth operations, wherein the company is benefiting from sponsors’ experience of running an established fertilizer plant. Nonetheless, some slippages are expected, though these would remain within the comfortable range. Meanwhile, the ratings also recognize Fatima Fertilizer’s association with two strong sponsoring groups, which have continued with their support in the development phase.
- The ratings are dependent on the successful execution of the project within the expected timeline without major cost overruns. Meanwhile, sponsors’ continued support, both financial and managerial, would be of critical importance for the ratings of the company.

ASSESSMENT

- The agriculture sector is the backbone of Pakistan’s economy. It accounts for approximately 21% of the GDP. Supply of cultivable land in Pakistan is relatively inelastic and the land is getting deficient in requisite nutrients. Therefore, the foremost means to increase agricultural productivity is by the use of fertilizers. Total fertilizer demand in Pakistan is ~7.8mln MT, of which nitrogenous fertilizers account for ~78%, phosphatic fertilizers ~16% and complex fertilizers (NP & NPK) ~6%. Meanwhile, use of phosphatic and complex fertilizer is well below requisite proportion. Domestic production meets around 81% of current fertilizer demand – nitrogenous 86%, phosphatic 55% and complex 88%. The shortfall is being met through imports. This places the fertilizer industry in a strategic position, which is likely to remain intact in the foreseeable future.
- Fatima Fertilizer is setting up a fertilizer complex at Mukhtar Garh, Rahim Yar Khan. The complex comprises four production lines: a) Urea (500,000MT p.a.), b) Calcium Ammonium Nitrate (420,000MT p.a.), c) Nitro Phosphate (360,000MT p.a.) and d) Nitro Phosphate Potash (300,000MT p.a.). The company has engaged various leading international contractors and suppliers, which have significant experience in their respective fields. Sojitz Corporation, assisted by reputed suppliers and technology licensors such as, Kellogg, Kawasaki and Stamicarbon, has been designated for setting up the project. China National Chemical Engineering Corporation is responsible for establishing the NP plant besides having a mandate for civil and mechanical completion of the project. Meanwhile, Fatima Fertilizer has three independent consultants – Shaw Consultants for technical reviews and monitoring; Miller Consulting Services for risk assessment and insurance cover and Haidermota & Company for legal advisory and counseling services.
- The initial estimated cost of the project was revised up significantly by PKR 24bln to PKR 59bln during 2008. This was an outcome of modifications in the original project, increasing prices of equipment. Fatima Fertilizer has incurred PKR 52bln by end-Sept09, and no significant cost overrun is anticipated. The project is progressing towards completion; however there have been certain slippages as depicted in the table. **Sep-09**

Plant	Planned (%)	Actual (%)	20% Utilization	80% Utilization
Urea	92.50	91.90	Dec-09	Feb-10
CAN	82.00	81.70	Nov-09	Dec-09
NP	89.80	73.50	-	Feb-11

- The project was initiated with 65:35 (PKR 23bln: PKR 12bln) debt-to-equity ratio. However, with increase in cost, the capital mix has changed in favor of equity. The revised capital structure is 56:44 (PKR 33bln: PKR 26bln). Fatima Fertilizer has availed PKR 29bln from the debt commitment, while sponsors will provide the balance portion in the form of PKR 2.6bln as direct injection, and the rest PKR 2.2bln of equity commitment would be raised through an IPO. Once operational, Fatima Fertilizer is unlikely to face any significant cash flow problem, since most of the fertilizer business is transacted on an advance basis. In addition, the repayment structure of the debt is also designed to put less burden on the company in its initial years of operations – major principal repayment would start in Nov-10.

PROFILE

- Fatima Fertilizer, incorporated in 2003, is entering in the business of manufacturing and marketing of fertilizer products. The entity is owned by Arif Habib Group (41%) and Fatima Group (49%), mainly through Pakarab Fertilizers Limited (PFL) and other group companies and individuals.
- Fatima Fertilizer’s board of directors comprises eight members, including the Chief Executive Officer (CEO). The CEO, Mr. Fawad Ahmad Mukhtar, a graduate of Government College Multan, also holds the same position in PFL. The Chairman of the board, Mr. Arif Habib, is a well known business professional of the country. Apart from the CEO, the board has three executive members, two members have presence on the board of other group companies, while there is one independent director.