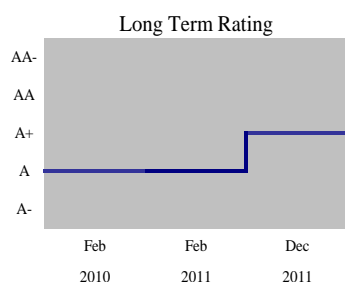




RATINGS (DECEMBER 2011)

FATIMA FERTILIZER COMPANY LIMITED

Entity	New	Previous
Long Term	A+	A
Short Term	A1	A1



FINANCIAL DATA

PKR (mln)

	Sep-11	Dec-10	Dec-09
Total Assets	73,390	69,455	57,202
Equity*	21,953	20,259	14,742
Capital Structure ^ (%)	66.1	67.3	66.5

* Excluding preference shares from Associates (PKR 4bln).

^ Total Debt/Total Debt+ Equity*

ANALYSTS

Amara Gondal
+92 42 35869504
Amara.gondal@pacra.com

Jhangeer Hanif
+92 42 35869504
jhangeer@pacra.com

RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect significant improvement in the risk profile of Fatima Fertilizer. Fatima has achieved CoD beginning this July for its entire fertilizer complex. The plants have demonstrated sustainable performance, and mostly operational capability close to the level of design capacity. The company benefits from strong inherent demand of nitrogenous fertilizers in the country. For phosphatic product having lower market size and price sensitivity, the management has envisioned a plan to develop sustainable demand. A sizeable proportion of the country's fertilizer industry is gripping with acute gas shortage. However, Fatima, being on Mari shallow field, mainly dedicated to fertilizers, is largely insulated from this load shedding. Fatima has benefitted from compensatory urea-led increase in fertilizer prices, wherein the impact is fully translated into its profits and cashflows. Resultantly, the company's financial risk profile has eased off, though overall debt levels remain high.
- The ratings depend on sustainability in the performance of Fatima Fertilizer, which, in turn, recognize stable supply of basic raw material to the company. Meanwhile, upholding good corporate governance practices and improvement in the control environment coupled with risk evaluation and management framework, inline with its business plans, would be crucial.

ASSESSMENT

Fatima's fertilizer complex comprises: a) Ammonia – 500,000MT p.a, b) Urea – 500,000MT p.a., c) Nitric Acid – 500,000MT p.a., d) Calcium Ammonium Nitrate – 420,000MT p.a., and e) Nitro Phosphate – 360,000MT p.a. Ever since the COD, the whole complex has been running smoothly though the maximum capacity utilization levels of different plants vary. This is reflection of some constraints being faced in the technology. The company envisages equipment de-bottlenecking of ammonia plant, which would enable the company to enhance the utilization level.

Total fertilizer market in Pakistan is approx. 9mln MT, of which nitrogenous fertilizers (Urea & CAN) account for ~76%, phosphatic and complex fertilizers (DAP, NP & NPK) ~21%. Use of phosphatic and complex fertilizer is well below requisite proportion. During 9MCY11, urea offtake witnessed meager growth (1%), while the retail price went up substantially by ~75%. The reason for muted growth in offtake, despite significant capacities coming online during CY11, is gas load-shedding. The price raise was led by Engro due to its significant position in the urea market, which also benefitted small players. The plants connected to SNGPL network are facing upto 20% scheduled and occasionally complete outages. Mari Shallow is maintaining ~10% announced load-shedding schedule due to hitherto lack of alternative uses of its gas. This has neutralized the impact of enhanced capacities and the supply deficit has continued. This deficit has benefitted CAN as well, of which the market though limited is absorbing whatever is produced, which is depicted by CAN offtake increasing by 80% during 9MCY11. CAN has other advantages over urea as well. NP competes with DAP, of which the market is limited and also price sensitive when compared with urea.

The latest production performance of Fatima Fertilizer depicts that though plants are gradually increasing utilization levels, these still lag behind name-plate capacity. This is pertinent especially considering that the current gas supplies suffice Fatima's requirements. Nevertheless, the market response to Fatima Fertilizer's CAN has been encouraging, triggered by rising urea prices making CAN a more lucrative substitute. NP's price affordability, nutrient mix and convenient availability gives it an edge over imported DAP. To effectively capitalize the situation, Fatima Fertilizer has launched an awareness campaign among the farmers community for balanced fertilization. This is in recognition of the fact that despite inherent advantages of NP and CAN, their market is not as robust as urea.

Average Capacity Utilization – CY11	Jan-Jul	Jul-Sep
Urea	93%	87%
CAN	77%	87%
NP	n.a	62%

Post CoD, Fatima has registered sales of PKR 7.3bln, which translated in a net income of PKR 1.7bln. In addition to low cost structure based on additional subsidy on feedstock the company benefitted greatly from increased product pricing. The trend in profitability would depend on the pattern of price environment in the country.

Fatima Fertilizer is at an advance stage of implementation of enhanced IT infrastructure, supported by Oracle based ERP system. The system is capable of generating critical reports on a periodic basis for the management. The company has recently initiated strengthening its internal audit department which would further contribute in augmenting the overall control environment.

Fatima Fertilizer's capital structure is leveraged at end-Sep11 with debt-to-equity ratio at 67:33 (PKR 44bln: PKR 22bln). With major debt-repayments starting May-12, the company has the cushion available in the form of established cash stream from sale of its products. The company's robust cashflows, a factor of hiked product price, have eased the financial risk. As there is no significant further capex call, Fatima Fertilizer has projected to meet its financial commitments entirely from these resources. The considerable delay previously experienced in interest repayment may also be eliminated.

PROFILE

Fatima Fertilizer, listed on all bourses of the country, is owned by Arif Habib Group (35%) and Fatima Group (49%) through group companies and individuals. Fatima owns a fertilizer complex with nameplate capacity of 1.28mln MT p.a, located at Mukhtar Garh, Rahim Yar Khan.

Fatima Fertilizer's board of directors comprises nine members, including the Chief Executive Officer (CEO). The chairman of Arif Habib Group Mr. Arif Habib, a well known business professional of the country, chairs the company's board in non-executive role. Mr. Fawad Ahmed Mukhtar, is the CEO of Fatima Fertilizer; he also holds the same position in Pakarab Fertilizers Limited. The CEO is supported by a team of experienced professionals, some of whom have joined the company lately.