



The Pakistan Credit Rating Agency Limited

Rating Report

Pak Arab Fertilizers Limited | TFC

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Aug-2019	A-	-	Developing	Maintain	YES
19-Feb-2019	A-	-	Stable	Maintain	YES
30-Oct-2018	A-	-	Stable	Maintain	YES
20-Apr-2018	A-	-	Stable	Maintain	-
12-Oct-2017	A-	-	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The company leverages on its ownership strength derived from Fatima Group and Arif Habib Group. Sponsor patronage in the shape of a turnaround plan has come to the rescue. As per the group level strategic plan, Fatima Fertilizer has acquired major operating plants of its associated Company Pak Arab Fertilizers; including Ammonia, Urea, Nitric Acid, NP, CAN and clean development mechanism. The first tranche (consideration from Fatima Fertilizer) in this regard has been given to the company while the complete roll-out is expected over short horizon. On the other hand, Fatima Fertilizer's plan to amalgamate its wholly owned subsidiary into itself is yet to materialize - awaiting regulatory approvals. Moreover, Fatima Group is in process to venture an undertaking to secure gas supply to Pak Arab's plant by laying gas pipeline - which is in last phase of its completion. Persistent gas curtailment - a major hurdle - coupled with country's current economic downturn added pressure to Pak Arab Fertilizer's risk profile. The Company's financial profile is reflected by a thin topline, majorly secured through DAP trading. Post-acquisition, Pak Arab Fertilizer is expected to develop a small yet a sustainable business model. Revenue stream would majorly include income from DAP trading, Carbon Dioxide plant activity, and other non-core activities, these income stream alongside consideration for acquisition from Fatima Fertilizer should enable the company in meeting its financial need.

The rating are kept under 'Rating watch' with 'Developing' outlook in anticipation to surveil the complete roll-out of the acquisition plan. The ratings would be updated once the evolving position is settled and financial statements for 2018 are finalized.

Disclosure

Name of Rated Entity	Pak Arab Fertilizers Limited TFC
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Methodology_Debt Instrument_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study Fertilizer(Jan-19)
Rating Analysts	Raniya Tanawar raniya.tanawar@pacra.com +92-42-35869504



Profile

Legal Structure Pakarab Fertilizer Limited is a registered public unlisted company.

Background Pakarab Fertilizers Limited was incorporated in 1973 as a result of an agreement between Government of Pakistan and the state of Abu Dhabi. Pakistan Industrial Development Corporation (PIDC); representative of Government of Pakistan (52%), National Fertilizer Corporation (NFC) and Abu Dhabi National Oil Company (ADNOC), an International Petroleum Investment Company; representative of the state of Abu Dhabi 48%. In 2005, Pakarab Fertilizers Limited (PAFL) was acquired by a consortium of Arif Habib Group and Fatima Group, under the Government of Pakistan's privatization programme.

Operations Pakarab Fertilizers Limited produces Calcium Ammonium Nitrate (CAN), Nitro Phosphate (NP) and Urea. It supplies fertilizer products domestically with a distribution network, with 920 sales points with 2,262 business associates, mainly concentrated in Punjab. Pakarab also has an LCO2 plant that produces 99.9% pure Carbon dioxide CO2 with a capacity of 192MTPD (63,360 MTPA).

Ownership

Ownership Structure Pakarab is owned by a consortium of Fatima Group and Arif Habib Group. Arif Habib Group, the key sponsor, holds 50% shareholding in Pakarab, while the Fatima Group holds 41% and the Fazal Group holds the smallest stake of 9%.

Stability Pakarab has profound backing and inevitable support of its sponsors; Arif Habib group and Fatima Group

Business Acumen Arif Habib group holds interests in the securities brokerage, investment and financial advisory, investment management, commercial banking, commodities, and private equity, cement and fertilizer industries. Fatima Group is another leading group under the corporate sector in Pakistan, engaged in trading of commodities, manufacturing of fertilizers, textiles, sugar, mining and energy.

Financial Strength Arif Habib Group and Fatima Group are among the leading corporate groups in Pakistan, with multi-faceted investment portfolio including trading of commodities, manufacturing of fertilizers, textiles, sugar, mining and energy.

Governance

Board Structure Overall control of the company falls to eight-member board of directors (BoD).

Members' Profile The chairman of Arif Habib Group, Mr. Arif Habib, a reputed business professional, chairs the company's board. He is also the chairman of Fatimafert Limited, Fatima Fertilizer Company Limited, Aisha Steel Mills Limited and Javedan Corporation Limited.

Board Effectiveness Company's board keeps oversight on overall business. The company conducted five board meetings witnessing good level of attendance.

Financial Transparency An effective Internal Audit department is in place that reports to the CEO. The External Auditor of the company are M/s A.F. Ferguson & Co, Chartered Accountants, one of the big four firms.

Management

Organizational Structure Pakarab Fertilizer has a proper organizational structure with defined reporting lines.

Management Team Pakarab is enriched with experienced management team with a balanced blend of professionals from the Industry. Mr. Fawad Ahmed Mukhtar is the Chief Executive Officer of the Company with vast business acumen spanning over three decades. Mr. Asad Murad, a highly qualified finance professional, has been deployed as the Chief Finance Officer (CFO) of PFL possessing more than two decades of experience in the relevant industry. He is also the Director Finance of Fatima Fertilizer Company Limited.

Effectiveness All members of management team are qualified and experienced individuals and carry extensive experience of the fertilizer industry. They have only one formal committee; Audit committee.

MIS The Company's MIS reporting framework consists of a comprehensive daily, weekly and monthly report, focusing on all important areas of the company's business.

Control Environment Pakarab enjoys sound production facilities and expertise for the plant operations. The quality control reports are generated and reviewed by senior engineers on daily as well as on weekly basis.

Business Risk

Industry Dynamics The fertilizer industry is a major part of the agriculture & allied sector of the country. The production capacity consists of 7.1mln MT of Urea and CAN and 1.7mln MT of DAP, NP and NPK. The fertilizer industry benefits from the significant demand of its major product, urea. The industry has been facing immense pressure not to pass the inflation/enhanced input cost due to price fixation by the Government, owing to subsidy regimes.

Relative Position The CY18 has been both ups and downs for Pakarab. Due to severe gas curtailment Company's fertilizer plants continued to be non-operative for most of the period CY18. Keeping in view of the circumstances, sponsors of the company chalked down solutions to encounter its prevailing woes. Fatima fertilizer, the group entity, has an enroute plan to acquire all fertilizer plants of PFL.

Revenues The revenue of the company has been fluctuating from CY17. It saw a meager growth of ~2% in CY17 and gigantic fall by 57% YoY during the period 9MCY18. Being mostly non-operative during 9MCY18, Pakarab earned small revenues of PKR ~5.8bln as compared to corresponding period (9MCY17: PKR ~13.5bln), which was entirely on the back of DAP sales. Pakarab Fertilizer lost its market share in NP and CAN segments, left secluded in the market.

Margins As company's revenue base suffered from declining trend, gross profits also converted into losses during 9MCY18; -868mln (CY17: ~372mln), thereby denting the gross margins (9MCY18: -15%, CY17: 2.2%). Finance cost witnessed a fall; 9MCY18: 1.7bln (CY17: PKR 2bln, CY16: PKR ~1.8bln). Bottom line of the business was eventually further strained, recording a loss of PKR ~2.6bln in 9MCY18 as against CY17 loss of ~3.9bln.

Sustainability Post acquisition, Pakarab Fertilizer is expected to be converted into a sustainable model. Income streams would generally include DAP trading and Carbon dioxide business, along with other non-core cashflow sources. Since, Pakarab has also started receiving cashflows from its relocated LCO2 plant, it is also expected to add value to the overall business of Pakarab. Moreover, Fatima Group is in process to venture an undertaking to secure gas supply to Pak Arab's plant by laying gas pipeline - which is in last phase of its completion.

Financial Risk

Working Capital PFL, in line with the industry, stocked DAP before the start of the season which reflected in the shape of high inventory. During 9MCY18, short term borrowings remains at a higher level, standing at PKR 11bln as of end Sept'18. Pakarab's financial structure continues to be stressed due to high leveraging and operational halt in the past. Post group level expansions and operational transitioning, financial metrics are expected to improve.

Coverages The business plan envisages fast recovery of all stuck-up operations. Negative Profit before tax led FCFO in adverse shape (9MCY18; PKR ~2bln, CY17: PKR -1bln, CY16: PKR -869mln), hence damaging the overall debt servicing capacity.

Capitalization By the end Sept'18 Pakarab has a sizeable total debt, comprising long term debt, cumulative long term debt-CMLTD and short term borrowings (9MCY18: PKR 20bln, CY17: PKR 19bln), resulting in upheaved leverage structure with a debt to debt plus equity ratio of 59% (CY17: 61%). In May-16 the company issued a privately placed term finance certificates (PPTFC) of PKR 450mln in order to meet its working capital expenditures along with expenses relating to its stock and spares. Payments are payable in six equal installments with the first payment falling at the end of 30th month (30th December 2018) from the first disbursement date (30th June 2016) and subsequently every six months afterwards till June 2021. This facility has been obtained from PAIR Investment Company Ltd and has a tenor of five years. The PPTFC would be payable at 6M KIBOR plus 1.90% per annum.



Pakarab Fertilizer Limited

UnListed Public Limited

BALANCE SHEET	Sep-18	Dec-17	Dec-16
	9M	12M	12M
a Non-Current Assets	42,351	44,018	42,153
b Investments (Incl. Associates)	561	547	458
Equity	-	-	-
Fixed Income	561	547	458
c Current Assets	19,515	16,919	17,950
Inventory	6,070	4,129	4,070
Trade Receivables	1,409	2,069	2,898
Others	12,035	10,722	10,981
d Total Assets	62,427	61,483	60,561
e Debt/Borrowings	17,995	18,179	15,927
Short-Term	11,446	10,779	9,173
Long-Term (Incl. Current Maturity of Long-Term Debt)	6,549	7,400	6,754
Other Short-Term Liabilities	12,229	9,116	9,811
Other Long-Term Liabilities	15,131	14,486	12,815
f Shareholder's Equity	17,071	19,702	22,007
g Total Liabilities & Equity	62,427	61,483	60,561

INCOME STATEMENT

a Turnover	5,814	16,531	16,176
b Gross Profit	(868)	372	(30)
c Net Other Income	(183)	96	336
d Financial Charges	(1,679)	(2,164)	(1,800)
e Net Income	(2,631)	(3,941)	(1,925)

CASH FLOW STATEMENT

a Free Cash Flow from Operations (FCFO)	(1,949)	(1,056)	(869)
b Total Cashflows (TCF)	(1,954)	(1,056)	(869)
c Net Cash changes in Working Capital	(551)	(11)	3,291
d Net Cash from Operating Activities	(3,608)	(3,004)	815
e Net Cash from Investing Activities	1,755	(471)	(207)
f Net Cash from Financing Activities	1,133	1,579	5,249
g Net Cash generated during the period	(720)	(1,896)	5,857

RATIO ANALYSIS

a Performance			
Turnover Growth (vs SPLY)	-53%	2%	-26%
Gross Margin	-15%	2%	0%
Net Margin	-45%	-24%	-12%
ROE	-19%	-19%	-8%
b Coverages			
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+U	-0.3	-0.2	-0.2
Interest Coverage (X) (FCFO/Gross Interest)	-1.2	-0.5	-0.5
Debt Payback (Years) (Total Debt (excluding Covered Short T	-6.4	-8.7	-8.5
c Capital Structure (Total Debt/Total Debt+Equity)			
Net Cash Cycle (Inventory Days + Receivable Days - Payable D	-24	44	22
d Capital Structure (Total Debt/Total Debt+Equity)	62%	56%	50%

Pakarab Fertilizer Limited

Aug-19

Credit Rating Scale & 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 and in 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. Substantial 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.		



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’.

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. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

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, the 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, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/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.

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

- (12) 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 fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is 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 | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) 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 | Chapter III | 14-(F-VII)

Proprietary Information

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Regulatory and Supplementary Disclosure

The Pakistan Credit Rating Agency Limited

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets
PPTFC	PKR 450mln	5years	The PPTFC are secured by a first pari passu charge on the company's present and future fixed assets.	PKR 600m	margin on present and future fixed assets: extent -	PAIR Investment Company Limited	PKR 42bln

Pakarab Fertilizer Limited | Privately Placed TFC

Name of Issuer	Pakarab Fertilizer Limited
Issue size	PKR 450mln
Issue Date	30-Jun-16
Tenor	5 years
Maturity	30-Jun-21
Profit Rate	6MKibor + 1.90%
Principal Repayment	6 equal semi annual installments from 30th month from first disbursement
Security	First pari passu charge on the company's present and future fixed assets.□

Pakarab Fertilizer Limited | Privately Placed TFC

Due Date Principal	Opening Principal	Principal Repayment	Due Date Markup/ Profit	Markup/Profit Rate		Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln			Base	Spread	PKR in mln		
6/30/16	335		6/30/16					335
8/28/16	406		8/28/16			-	-	406
12/30/16	406		12/30/16			-	-	406
2/28/17	450		2/28/17			-	-	450
6/30/17	450		6/30/17	6.14%	1.90%	12	12	450
12/31/17	450		12/31/17	6.14%	1.90%	18	18	450
6/30/18	450		6/30/18	6.21%	1.90%	18	18	450
12/31/18	450	75	12/31/18	7.04%	1.90%	20	95	375
6/30/19	375	75	6/30/19	10.79%	1.90%	24	99	300
12/31/19	300	75	12/31/19	13.11%	1.90%	23	98	225
6/30/20	225	75	6/30/20	13.11%	1.90%	17	92	150
12/31/20	150	75	12/31/20	13.11%	1.90%	11	86	75
6/30/21	75	75	6/30/21	13.11%	1.90%	6	81	-

*Kibor rates till 30-06-19 are actual rates applied. Forecasted rates are based on last payable markup rate.