

Pakarab Fertilizers Limited

Chairman: Mr. Arif Habib; Chief Executive: Mr. Fawad Ahmad Mukhtar

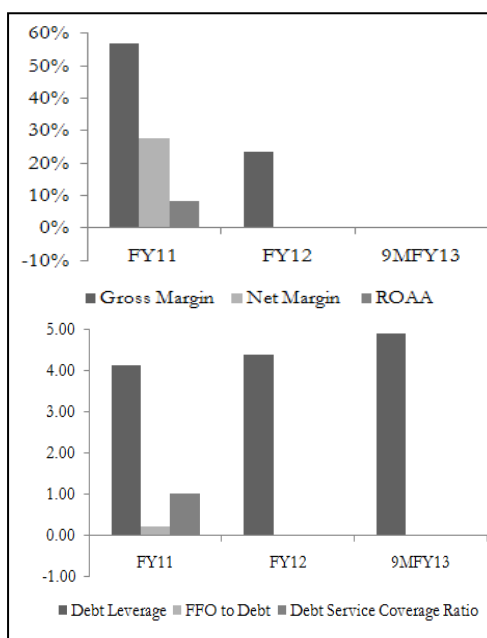
May 19, 2014

Rating Rationale

Analysts: Maimoon Rasheed
Hammad Malik

Category	Latest	Previous
Entity	AA-/A-1	AA-/A-1
PPTFC	AA	AA
Rs. 6,500M		
Outlook	Stable May 19, '14	Stable Oct 16, '12

Key Financial Trends



(Rs. billion)	FY11	FY12	9MFY13
Net Sales	16.7	8.1	2.4
Net Profit	4.6	(0.2)	(1.7)
Gross Margin	56.9%	23.5%	(20.4%)
Equity*	10.4	7.9	6.4
Total Debt	19.6	15.3	13.1
Gearing (x)*	1.88	1.93	2.04
FFO	4.2	(1.5)	(2.2)
FFO/Total Debt (x)	0.21	(0.1)	(0.2)
ROAE*	40.5%	(2.5%)	(23.5%)
ROAA	8.1%	(0.4%)	(3.3%)

*Excluding Revaluation

In recent years, Pakarab Fertilizers Limited (PFL) has been subjected to severe gas curtailment. As natural gas is the essential raw material for producing fertilizers, capacity utilization of the company declined considerably. The said gas crisis became more severe during calendar year 2013. In an effort to prioritize the energy sector, gas supply has been diverted from fertilizer (mainly Punjab-based plants) to other sectors leading to prolonged production shutdown of fertilizer plants dependent on the system of Sui Northern Gas Pipelines Limited (SNGPL), including PFL.

As capacity utilization declined to 12.5% (FY12: 21%; FY11: 59.1%) during FY13, sales were reported lower while erosion in margins was also witnessed. Other operating income, previously fuelled by accrued interest income on loans to Fatima Fertilizer Company Limited (FATIMA) and dividend on FATIMA's preference shares, was also considerably lower in FY13 as FATIMA repaid long-term loans to PFL. Moreover, a part of preference shares was converted into ordinary shares and distributed as specie dividend to PFL's shareholders while the other part was redeemed by FATIMA during FY12. Despite declining finance cost, the aforementioned factors led to the company reporting a loss of Rs. 239.8m and Rs. 1.67b in FY12 and 9MFY13, respectively.

While total debt of the company declined during FY13, current portion of long term debt and short-term borrowings represented 57% of the overall borrowings at end-Sep'13. The company received cash flows from FATIMA in lieu of redemption of preference shares and repayment of loans amounting to Rs. 1.8b and Rs. 4.5b respectively during FY12. PFL also received accumulated dividend on preference shares and interest income on loans to the tune of Rs. 2.9b during FY13. The abovementioned amounts were utilized to retire loans during FY12 and FY13 including TFC obligations.

During 3QFY13, a loan of Rs. 3b was procured from FATIMA. The tenor of the loan is five years having a grace period of two and a half years and is repayable in six equal semi-annual installments of Rs. 500m. Mark-up is to be paid semi-annually at six months Kibor plus 2%. With erosion in equity base, leverage indicators of PFL showcased deterioration with debt leverage and gearing increasing to 4.89x and 2.04x (FY12: 4.38x and 1.93x) respectively at end-9MFY13.

The liquidity position of the company deteriorated witnessing negative FFO during FY12 and FY13. Cash flows are likely to remain under stress in lieu of adverse industry dynamics. There is, however, a strong likelihood of financial support from Sponsors/Group Companies as is evident in the recent loan provided to PFL and remains a key rating factor.

During 2013, Government of Pakistan, through its Economic Coordination Committee (ECC) approved a plan to allocate 202mmcf/d gas directly to fertilizer plants through five dedicated gas fields which include 130 mmcf/d from OGDCL operated, Kunhar Pasakhi Deep (KPD) Field. Barring KPD and Bahu (15mmcf/d), other fields have started providing gas to two fertilizer plants namely Engro Fertilizer Limited and Agritech Limited, which are in the vicinity of other gas fields. OGDCL has already signed a Gas Sale Agreement with four fertilizer producers including PFL on the SNGPL network to directly sell 130 mmcf/d gas from KPD. The project, initially targeted to be completed by August'14, requires construction of a dedicated transmission pipeline which will be partly financed by fertilizer producers. PFL's contribution in the said project is expected to be about Rs. 3.3b. Fertilizer production and overall profitability of the industry remains a function of gas supply situation and any development in this regard will be critical for PFL's future financial health.

Overview of the Institution

PFL is the fourth largest fertilizer manufacturer in the country, in terms of installed capacity. PFL was incorporated in November, 1973 as a joint venture between the Government of Pakistan (GoP) and the Government of Abu Dhabi. The nameplate capacity of the plant is 846,900 metric tons per annum and is located at Khanewal Road, Multan. During 2005, PFL was privatized under privatization policy of the GoP. The company was acquired by the consortium of Fatima Group and Arif Habib Group **JCR-VIS**

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Entity</u>				
19-May-14	AA-	Stable	A-1	Reaffirmed
16-Oct-12	AA-	Stable	A-1	Reaffirmed
28-Mar-11	AA-	Stable	A-1	Reaffirmed
31-Dec-10	AA-	Stable	A-1	Reaffirmed
24-Nov-09	AA-	Stable	A-1	Reaffirmed