



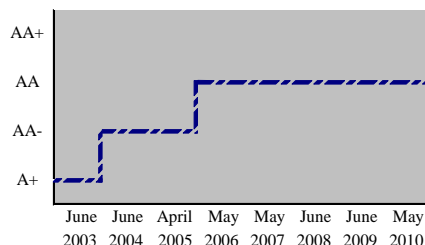
RATINGS (MAY 2010)

ENGRO CORPORATION LIMITED

[ECL]

Entity	NEW	PREVIOUS*
Long Term	AA	AA
Short Term	A1+	A1+

* Assigned to Engro Chemical Pakistan Limited.



FINANCIAL DATA

PKR (mln)

	Dec-09*	Dec-08*
Total Assets	132,105	80,802
Equity	29,344	23,548
Long Term Borrowings	84,463	40,768
Current Borrowings	3,720	4,953
Net Turnover	58,152	40,937
EBITDA	9,018	8,072
ROE %	14.9	17.9
EBITDA Interest Cover (X)	4.1	4.6
Total Debt/ (Total Debt + Equity)	75.0	66.0

* Consolidated figures for Engro Chemical Pakistan Limited.

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RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect ECL's articulated corporate center mandate aimed at creating value in excess of the sum of its parts. The salient features of this mandate include development of a central pool of executive management capable of managing independent businesses, designation of a group CEO, strengthening of the governance framework with independent directors, and a comprehensive framework for monitoring the performance of subsidiaries. The ratings incorporate ECL's diversified investment portfolio including a stable, indeed growing, fertilizer presence, wherein business risk is low. Although some of the company's subsidiaries are currently in the growth phase, a sustained dividend stream from established enterprises supplements ECL's financial profile.
- These ratings are dependent upon the company's ability to implement a robust mechanism for providing strategic guidance to all group companies while maintaining an effective control environment. Moreover, timely completion of the urea expansion project without significant delays, coupled with growth and resultant profitability in other businesses, remains important. Meanwhile, effective management of the group's financial risk, especially during the period prior to the planned gradual de-leveraging, remains critical for the company's ratings.

ASSESSMENT

- Incorporated in 1965, Engro Chemicals Pakistan Limited (ECPL) was renamed as Engro Corporation Limited (ECL) on January 01, 2010, following a demerger of the fertilizer business to Engro Fertilizer Limited (EFL). All assets/ liabilities of the fertilizer business have been transferred to Engro Fertilizer with Engro Corporation carrying equity investments in subsidiaries and associates at cost. Engro Corporation is now the holding company for all strategic investments including fertilizer operations. Engro Corporation has irrevocably and unconditionally guaranteed to each secured party, as defined under the pertinent finance documents, punctual performance by Engro Fertilizer of all its obligations, and undertakes that whenever Engro Fertilizer does not pay any amount when due, it must immediately, on demand by the inter-creditor agent (National Bank of Pakistan), pay that amount as if it were the principal obligor in respect of that amount.
- As a holding enterprise, ECL aims to benefit from a more focused approach towards strategic management and enhanced governance. The company generates a monthly MIS – Dashboard – providing a structured breakdown of information on predetermined key indicators for each group entity. The company has also formulated an Executive Committee (ExCom), comprising Group CEO, Group CFO, Head Human Resource and all designated CEOs of subsidiaries/ associates. ExCom's primary function is to assess managerial qualities, while augmenting decision-making and consensus building.
- ECL's investment book (cost: PKR 23,730mln) include interests in companies engaged in (i) fertilizers (Engro Fertilizer Limited – 100%), (ii) food & allied (Engro Foods Limited – 100%), (iii) power production (Engro Energy (Pvt.) Limited – 95% and Engro Powergen (Pvt.) Limited – 100%), (iv) commodity export/ import (Engro Eximp (Pvt.) Limited – 100%), (v) automation & controls engineering (Avanceon Limited – 63%) (vi) PVC resins (Engro Polymer & Chemicals Limited – 56%) and (vii) Storage (Engro Vopak Terminal Limited – 50%).
- Engro Fertilizer Limited is currently the second largest producer of urea in the country (~22% as per designed capacity). EFL, at present, is undergoing expansion (Enven 1.3), with added capacity of 1,300,000tons expected to come online, with some delay, in 4Q10. Engro Foods Limited, engaged in the manufacture of dairy products, is currently in a growth phase and reported a loss of PKR 434mln for 2009. Engro Energy Limited, a 217MW combined cycle power plant, initiated commercial production in March 2010, as per the revised plan. Engro Eximp (Pvt.) Limited, engaged in commodities import/export, reported a profit of PKR 1,435mln in 2009. Avanceon Limited, acquired in 2007, provides process control solutions to industrial units and posted a profit of PKR 24mln in 2009. Engro Polymer & Chemicals Limited, the only listed investment, has recommenced its VCM plant during May10 (backward integration) after a lag of around 5 months due to fire incident in December. The company reported a loss of PKR 193mln in 2009. Engro Vopak Terminals Limited reported a profit of PKR 917mln in 2009, repatriating almost entire amount in the form of dividends.
- The company envisages continued focus on three core sectors: 1) Fertilizer, 2) Food and 3) Energy, while diversifying into other lucrative business opportunities. The role of ECL will be limited in terms of operational decision making but more on the lines of oversight and providing strategic direction. In terms of profitability, the company's income stream would stem from dividends received from its investments and, therefore, expected to be highly correlated to the performance of group entities and their ability to generate positive cash flows. Total subsidiary income in 2009 amounted to PKR 1,885mln (2008: 2,605mln) emanating from Engro Eximp (Pvt.) Limited (PKR 1,435mln) and Engro Vopak Terminal Limited (PKR 450mln). Going forward, Engro Energy is expected to contribute towards ECL's dividend income, followed by Engro Fertilizer in 2011. Engro Polymer would follow suit once its VCM plant is completely functional.
- The group, with a consolidated debt of ~PKR 87bln and a debt-to-equity ratio of 75:25 at December 2009, remains highly leveraged. However, with the commissioning of Enven 1.3, the debt is expected to gradually decrease over the medium term.

PROFILE

- Engro Corporation Limited (formerly Engro Chemicals Pakistan Limited) is listed on all three stock exchanges of the country. Dawood Group holds a majority stake (~48%) in ECL. ECL has a thirteen member board. The chairman of the board is Mr. Hussain Dawood, a well known professional veteran. The CEO, Mr. Asad Umar, an MBA with significant professional experience, has been associated with the company for long. Apart from the CEO, there is equal representation on the board: four members from the Dawood Group, four from the company's management and four independent directors.