

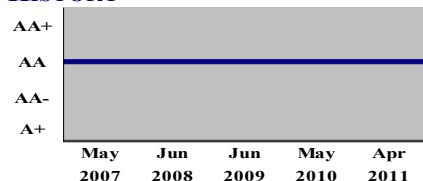


RATINGS (APRIL 2011)

ENGRO CORPORATION LIMITED [ECL]

ENTITY	NEW	PREVIOUS
LONG TERM	AA	AA
SHORT TERM	A1+	A1+
Secured, Listed TFC I OF PKR 4,000MLN	AA	AA
Secured, Listed TFC II OF PKR 3,000MLN	AA	-

ECL L.T. ENTITY RATING HISTORY



FINANCIAL DATA

PKR (MLN)

	Dec-10 *	Dec-09 *
Total Assets	164,778	132,105
Equity	34,115	29,344
Long term borrowings	89,152	84,163
Current borrowings	21,260	3,720
Net Turnover	79,976	58,152
Gross Margin	25.4 %	23.0 %
ROE	18.9 %	14.7 %
FCFO/ Interest + CMLTD	(0.20) x	3.0 x
Total Debt/ Total Debt + Equity	76.4 %	75.0 %

* Consolidated numbers for Engro Corporation

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TFCs Issues

The 1st TFCs of PKR 4,000mln has a tenor of 3 years, carrying fixed profit rate of 14.5%p.a., paid semi-annually. Principal repayment will be at the end of the tenor or early through put option available to all investors.

ECL is in the process of issuing 2nd TFCs of PKR 3,000mln (including a green shoe option of PKR 1,000mln). The instrument will have a tenor of 3 years, carrying fixed profit rate of 14.5%p.a., paid semi-annually. Principal repayment will be at the end of the tenor or early through put option. Both issues are secured by way of first ranking pari passu charge over all the present and future movable properties (including investments) of Engro Corporation Limited but with certain exceptions. Put options are expected to be met through ECL's internal cashflows and/or short-term resources available with ECL directly or through its subsidiaries.

RATING RATIONALE & KEY 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, a focussed strategy-setting function, strengthening of the governance framework, 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

- Engro Corporation Limited (ECL) functions as a holding company responsible for overseeing and managing the performance of its subsidiaries and associates. As a holding enterprise, ECL aims to benefit from a more focused approach towards strategic management and enhanced governance. To maintain proper monitoring of investments, ECL generates a standardized monthly MIS – Dashboard – which provides a structured breakdown of information on predetermined key indicators. The company has established certain risk management protocols and plans to implement an Enterprise Risk Management (ERM) framework, encompassing risk management policies/ procedures which each subsidiary is required to adhere to. The company has 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 manage top talent, while augmenting decision-making and consensus building.

A snapshot of ECL's various investments, is delineated in the table below:

PKR (mln)

Business line	Entity	Holding (%)	Revenue 2010	PAT 2010	Income to ECL
Fertilizer	Engro Fertilizer Limited	100%	19,018	3,730	258 (royalty)
Food & Allied	Engro Foods Limited	100%	21,050	177	-
Energy	Engro Powergen Limited Engro Powergen Qadirpur Limited	100% 10% (85% through EPL)	5,727	1,100	-
Trading	Engro Eximp (Pvt.) Limited	100%	17,720	1,732	1,100
Engineering	Avanceon Limited	63%	1,828	(195)	-
Chemicals	Engro Polymer & Chemicals Limited	56%	14,618	(770)	-
Storage	Engro Vopak Limited	50%	2,303	1,109	540

- EFL is currently the second largest producer of urea in the country (~23% as per designed capacity). In the later part of 2010, EFL achieved mechanical completion of its 1,300mln MT urea expansion project (Enven 1.3). The plant, after initial gas curtailment, has now restarted and commercial production is now expected to commence during Apr11. Engro Foods Limited, engaged in the manufacture of dairy products, reported a positive bottom line for the first time in 2010. Engro Powergen Limited, a 217MW combined cycle power plant, initiated power generation in Mar10. Engro Engro Polymer & Chemicals Limited (EPCL), a listed entity, re-commissioned its VCM production during 4Q10 after a lag due to a fire incident. With higher utilization of VCM capacity, EPCL is likely to achieve profitability depending on PVC demand in the domestic market. The company is considering a right issue amounting to PKR 1,000mln to meet debt covenants. During 2010, ECL's consolidated topline rose 38% YoY with overall profitability up 78% YoY.
- Going forward, the company envisages continued focus on four major sectors: 1) Fertilizer, 2) Food, 3) Energy, and 4) Petrochemicals. The role of ECL itself will remain limited in terms of operational decision making but more towards oversight and establishing strategic direction of the group / individual subsidiaries. In terms of profitability, the company's income stream is expected to be highly correlated to subsidiary performance and their ability to generate positive cash flows. The company has planned listing of three entities in 2011: Engro Fertilizer, Engro Foods, and Engro Powergen Qadirpur. While the first two would be fresh capital issues, the last is likely to be an offer for sale. Engro Powergen Qadirpur, followed by Engro Fertilizer, are expected to be the next dividend contributors towards ECL.
- There has been a slight increase in group leveraging in 2010, mainly related to completion of Enven 1.3. Increase in current borrowings is due to current maturity and launch of Engro Rupiya Certificate. With the start of debt repayment in EFL during 2011, debt levels are expected to decrease – albeit gradually over the medium term. Timely COD announcement of Enven 1.3 to supplement base plant cashflows remains critical. In the meantime, the group's ability to raise requisite funding through capital and/or debt markets largely mitigates the associated risks. In this regard, ECL is issuing 2nd TFCs of PKR 3,000mln, which will be given to subsidiaries to replace existing debt and/or to meet future debt requirements.

PROFILE

- Engro Corporation Limited is listed on all three stock exchanges of the country. Dawood Group (DG) holds a majority stake (~48%) in ECL. The company has a thirteen member board. The chairman of the board is Mr. Hussain Dawood, a well known entrepreneurial 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.