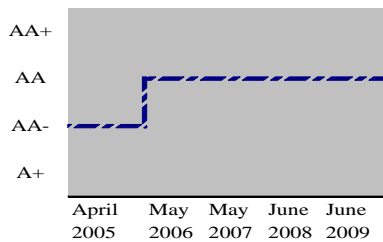


RATINGS (JUNE 2009)

ENGRO CHEMICAL PAKISTAN LIMITED (ECPL)

Entity	New	Previous
Long Term	AA	AA
Short Term	A1+	A1+
TFCs		
<i>Secured, Listed</i>		
PKR 4,000mln	AA	AA
<i>Secured, Privately Placed</i>		
PKR 4,000mln	AA	AA
PKR 2,000mln	AA	AA

L.T. Entity Rating History



FINANCIAL DATA

PKR (mln)

	Mar-09*	Dec-08	Dec-07
Total Assets	64,826	60,289	38,415
Equity	20,468	23,084	15,740
Net Income	695	4,240	3,155
EBITDA	1696	7367	5,405
ROA (%)	4.4	8.6	11.6
ROE (%)	12.8	21.8	25.1
EBITDA / Interest (x)	3.8	4.9	14.5
Net Debt / Equity (%)	179.5	120.5	57.0

*Un-Audited

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TFCs ISSUES

ECPL issued a secured and listed TFC of PKR 4,000mln in November 2007. The tenor of the instrument is 8 years carrying profit based on 6month KIBOR plus 155bps. The principal repayment would be in two equal installment commencing from May 2015. ECPL issued two privately placed TFCs of PKR 4,000mln and PKR 2,000mln in March 2008. PPTFC 1 has markup of 6 months KIBOR plus 1.7% and PPTFC II has markup of 6 months KIBOR plus 1.25%. PPTFCs are perpetual in nature with a five-year call and ten year put option.

RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect ECPL's relatively low business risk emanating from a stable, indeed growing, fertilizers demand amidst continuing domestic supply deficit. The ratings also take into account the company's well-conceived strategy of fortifying its position through a sizeable urea expansion project. Meanwhile, the company's standalone financial profile is expected to remain intact after planned spin-off of fertilizer operations, alongwith all related assets and liabilities, to a wholly owned subsidiary – Engro Fertilizer Limited.
- These ratings are dependent on the successful execution of the group's plan to elevate to a holding structure while sustaining the risk profile of each entity for the interest of all stakeholders especially lenders. Moreover, timely completion of the urea expansion project without significant cost overrun remains important. In the meantime, stability in cash flows, thereby avoiding significant pressure on ECPL's coverages, would be critical for the ratings.

ASSESSMENT

- During 2008, ECPL's urea production stood at 995,000 tons (4.3% higher), slightly shy of the target of 1mln ton for the year. This growth was an outcome of bringing efficiency to the turnaround process. However, there was a sizeable decline in the production of NPK, owing to comparatively low demand.
- ECPL experienced a significant growth in the turnover of its own manufactured products fuelled by both higher volumes and prices. However, there was a sharp decline in the offtake of DAP. This was an outcome of notable rise in DAP prices during 2008, which though eased significantly towards end of the year. The company maintained its gross margins in urea by passing onto consumers all increases in the input costs (mainly natural gas). However, gross margins in DAP witnessed a slight decline on a comparative basis. There was substantial improvement in ECPL's operating margins, attributed to efficiency in product transportation and handling cost. Although increased leverage resulted in comparatively higher finance cost, growing income streams from subsidiaries augmented the bottomline.
- ECPL's new urea plant (1.3mln ton), the world's largest single train ammonia-urea plant, is expected to commence commercial production by mid-2010. Engineering phase is complete with majority of equipment procurement done so far. In addition, tallest Prill Tower, with height of 125 meters, has been erected. Meanwhile, there has been a slight cost overrun (US \$ 50mln, ~5%), due to increase in interest rates, devaluation of rupee and minor design change.
- ECPL, with a strategic investment portfolio of above PKR 11bln at end-Mar09, has interests in companies engaged in (i) storage of chemicals and LPG (Engro Vopak Terminal Limited – 50%), (ii) manufacture of PVC resins (Engro Polymer & Chemicals Limited – 56%), (iii) automation and controls engineering (Avanceon Limited – 63%), (iv) dairy and allied (Engro Foods Limited – 100%), and (v) power production (Engro Energy Limited – 95%). The recently announced corporate restructuring plan envisages transfer of all fertilizer assets and liabilities (including borrowings) to Engro Fertilizer Limited; ECPL would be renamed as Engro Corporation Limited – the holding company for all strategic investments including fertilizer operations.

- The company has implemented SAP, an enterprise resource planning system for its financial, accounting and human resource applications. Going forward, ECPL intends to enhance effectiveness of this system in order to fully take benefit of its capabilities.
- Significant procurement of debt for urea expansion project has substantially increased leverage in the capital structure of ECPL. Debt-to-equity ratio has reached 56:44 (2007: 54:48). With increased financial obligations, cash flows and coverages have come under pressure. Nonetheless, ECPL's already strong cash generating ability from core operations, supplemented by a stable dividend stream, largely mitigate the associated risk.

PROFILE

- Engro Chemical Pakistan Limited, incorporated in 1965, is listed on all stock exchanges of the country. The core business of ECPL, the second largest producer of urea in the country, is manufacturing and marketing of fertilizers. ECPL markets urea under the brand name of *Engro Urea*, MAP under the brand name of *Zorawar*, NPK under *Zarkhez* and DAP as *Engro DAP*. ECPL's urea plant, with a capacity of 975,000tons per annum, is located at Daharki, whereas NPK plant is situated at Port Qasim.
- Dawood Group of Companies (DG) holds a majority stake (~42%) in ECPL, while the holding of Engro employees and Employees Trust stands at 10%. The BoD of ECPL comprises five members from its own management including Mr. Asad Umar (Chief Executive Officer), four from DG including BoD Chairman – Mr. Hussain Dawood, and four independent directors. The CEO, an MBA with significant professional experience, has been associated with ECPL for long.