



Rating Action

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PACRA ASSIGN RATINGS TO ENGRO FERTILIZERS LIMITED

The Pakistan Credit Rating Agency (PACRA) has assigned a long-term entity rating of “AA-” (Double A Minus) and short-term entity rating of “A1” (A One) to Engro Fertilizers Limited (EFL). The ratings of the two secured and listed TFCs of PKR 4,000mln and PKR 2,000mln, and that of the two privately placed TFCs of PKR 4,000mln and PKR 2,000mln are reaffirmed at “AA” (Double A). The ratings denote a very low expectation of credit risk emanating from a very strong capacity for timely payment of financial commitments.

The ratings reflect EFL’s relatively low business risk emanating from a stable, indeed growing, urea demand with 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 (Enven 1.3), nearing completion now. The ratings recognize the company’s ability to manage its financial profile though stretched as a result of high borrowings yet manageable with ensuing cashflows of the new capacity post planned commissioning in second half of 2010.

About the TFCs: With the transfer of TFCs from Engro Corporation (formerly Engro Chemical Pakistan Limited) to EFL, the company has 4 rated TFCs. These TFCs are namely: (i) TFCII of PKR 4,000mln, issued in Nov-07, with a tenor of 8 years. The principal repayment would be in two equal installment commencing from May 2015. (ii) PPTFCI of PKR 4,000mln and (iii) PPTFCII of PKR 2,000mln. Both PPTFCs, issued in Mar08, are perpetual with a five-year call and ten year put option. (iv) TFCIII of PKR 2,000mln issued in Dec09, with a tenor of 7 years. The principal repayment will be in 10 semi-annual installments, starting from June 2012.

About the Company: EFL is a wholly owned subsidiary of Engro Corporation Limited (formerly Engro Chemical Pakistan Limited), which in turn is majority (~48%) owned by Dawood Group. The core business of EFL, the second largest producer of urea in the country, is manufacturing and marketing of fertilizers. EFL’s current urea plant, with a capacity of 975,000MT p.a., is located at Daharki, whereas NPK plant is situated at Port Qasim. EFL’s new urea plant (1,300,000MT p.a.), the country’s largest ammonia-urea plant, is progressing towards completion (expected: 4Q10).

The ten member board of EFL comprises four executive directors including Mr. Asad Umar (Chairman & Chief Executive Officer), two from Dawood Group and four independent directors. After successful completion of Enven 1.3, the chairman is expected to relinquish his managerial role, succeeded by another executive director – Mr. Khalid Subhani.

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