The Pakistan Credit Rating Agency Limited

ENGRO CORPORATION LIMITED

	NEW [MAY-17]	PREVIOUS [DEC-16]
Long-Term	AA	AA
Short-Term	A1+	A1+
Outlook	Stable	Stable

REPORT CONTENTS

MAY 2017

Profile

- Engro Corporation Limited (ECL) – close to one and a half billion dollar corporate conglomerate in turnover terms – has expanded its footings in diversified business avenues with sizable portfolio of strategic investments.
- The group's business portfolio spans across various sectors including fertilizers, PVC resin, manufacturing and marketing, food, energy, exploration and chemical terminal and storage businesses.
- Dawood Group – DG holds a major stake of 45% in ECL through corporate and individuals.

Governance

- ECL's nine members' board of directors (BoD) comprises four representatives of DG, CEO, two non-executive and two independent members.
- The board collectively directs the company affairs by providing visionary support and guidance for effective management of subsidiaries.
- The BoD has constituted three committees to assist the board in governing the affairs of the company. These comprise: a) Board Compensation Committee, b) Board Audit Committee, and c) Board Investment Committee.

Management & Controls

- Mr. Khalid S. Subhani has stepped down from his position after serving for a year. He was succeeded by Mr. Ghias Khan w.e.f Oct 2016.
- ECL functions as a pure holding company. ECL has instituted a well-designed organizational structure which is divided across various functional divisions
- ECL has one principal management committee – Executive Committee (ExCom) which is chaired by the ECL CEO and comprises of the CEOs of all the subsidiary companies

Business Risk

Figures in 'mln

Entity	Revenue			PAT			Income to ECL		
	CY14	CY15	CY16	CY14	CY15	CY16	CY14	CY15	9MCY16
EFert	61,425	88,033	69,537	8,208	14,819	9,283		6,571	4,648
EFoods	42,602	49,834	44,346	889	3,162	2,387			
EAgri	7,125	1,878	918	(4,302)	(4,517)	(478)			
EPolymer	23,819	22,264	22,854	(1,109)	(664)	660			
Epowergen Qadirpur	12,041	13,354	11,452	2,021	1,797	1,788	49		
EVopak	2,168	2,599	3,155	1,419	1,574	2,089	630	788	720
Total	**149,180**	**177,962**	**152,262**	**7,126**	**16,171**	**15,729**	**679**	**7,359**	**5,368**
Consolidated	**175,958**	**184,264**	**157,208**	**7,007**	**13,784**	**69,107**	**1,233**	**7,359**	**5,368**

- The company's standalone income comprises dividend and royalty income from its subsidiaries and joint ventures.
- During the year, ECL divested 22% stake, as part of strategic re-alignment to explore opportunities in Energy sector.
- The holdco's consolidated top line posted a decline of ~13% on YoY basis and stood at PKR 157.2bln as end-Dec16 (end Dec15: PKR 184bln). The decline in the topline is an outcome of lower UREA offtake and dip in EFoods sales volume due to change in tax regime.
- The group's finance costs decreased significantly by ~ 29% on YoY basis and were at PKR 6bln at end-Dec16 (end-Dec15: PKR 8.4bln).
- The overall consolidated profitability witnessed a meager dip of 3% and posted a profit of PKR 15.7bln at end-Dec16 (end Dec15: PKR 16.1bln).

Financial Risk

- ECL's consolidated leveraging surged to Dec-16:PKR 73bln, Dec-15: PKR 60bln).
- EFert's debt (Dec-16:PKR 34.6bln) is the major portion in the consolidated debt of the holding company.
- Elengy Terminal and Engro PowerGen Thar achieved financial close during CY16 and has procured ~PKR 13bln of debt to meet capital expenditures pertaining to ongoing projects.
- On a standalone basis, the leverage on ECL's books is entirely represented by its Islamic instruments. The PKR 4bln debt comprises two instruments, Engro Islamic Rupiya Certificate I and II.

Rating Rationale

The ratings reflect the sustained risk profile of holding company. As a holdco, ECL has a diverse pool of investment: core as well as strategic under the umbrella of its three strategic pillars i.e. fertilizer, consumer goods and energy. Mostly, ECL's investment book is characterized by companies having intensive engineering and mechanical setup. Hence, the group envisage sizeable expansion in the energy sector. Efert is stabilized though it faces challenges emanating from international price parity and smooth offloading of its main product. ECL has generated sizeable cash from divestment of Efert and Efoods hence future investment avenue would play a crucial role in its overall risk profiling. With focused and intensive efforts, ECL has been successful in overcoming challenges faced by polymer business. ECL has benefited from its LNG venture which continued bearing fruits for the company. Vopak is a sustained cash producer. The ratings draw comfort from Engro Corp's well-articulated mandate, which, in a structured manner, targets development of a central pool of executive management, a focused strategy setting and capital allocation function, and nurturing of governance framework.

Key Rating Drivers

Partnership with the foreign international player in the food business is expected to bring advantages to the group. The ratings remain dependent upon the company's ability to uphold the robust monitoring mechanism aimed at providing holistic direction to all subsidiaries while maintaining a strong control environment. Sustainability in the performance of subsidiaries along with effective management of financial profile on a group-wide basis remains important.

About The Instrument

The Sukuk (PKR4,000mln), issued in Jul-14 has two tranches; a) a tenor of 3 years (PKR3,000mln) maturity in July-17 and b) a tenor of 5 years (PKR1,000mln) maturity in July-19. The profit rates on the tranches are 13% and 13.5% respectively which is paid semi-annually. Principal repayment will be at the end of the tenor or early through put option available to Sukuk holders.

CREDIT RATING
SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.
AA+ **AA** **AA-**	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ **A** **A-**	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ **BBB** **BBB-**	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ **BB** **BB-**	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ **B** **B-**	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC **CC** **C**	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

SHORT TERM RATINGS

A1+: The highest capacity for timely repayment.

A1:. A strong capacity for timely repayment.

A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.

A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Outlook (Stable, Positive, Negative, Developing)
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information

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Regulatory and Supplementary Disclosure

Name of Issuer	Engro Corportion Limited (ECL)
Sector	Holding Company
Type of Relationship	Solicited
Purpose of the Rating	Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
17-May-17	AA	A1+	Stable	Maintain
22-Dec-16	AA	A1+	Stable	Maintain
22-Dec-15	AA	A1+	Stable	Upgrade
13-Jan-15	AA-	A1+	Positive	Maintain
17-Jan-14	AA-	A1+	Stable	Upgrade
27-Jun-13	A	A1	Stable	Maintain
5-Sep-12	A	A1	Stable	Downgrade
30-May-12	AA	A1+	Stable	Maintain

Related Criteria and Research

Rating Methodology — Holding Companies Rating Methodology - 2016

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Rating Team Statement

Rating Procedure
Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so
PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

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